

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Tecumseh		County Lenawee	
Audit Date 6/30/05		Opinion Date 8/12/05		Date Accountant Report Submitted to State: 10/24/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

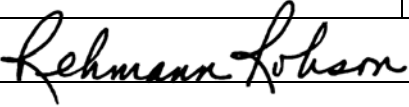
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

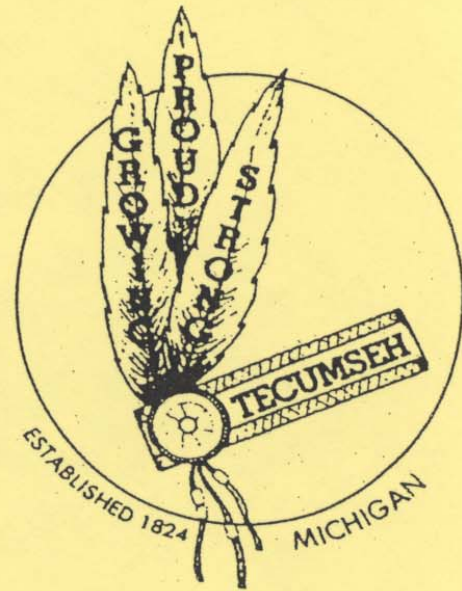
We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA				
Street Address 5800 GRATIOT, PO BOX 2025		City SAGINAW	State MI	Zip 48605
Accountant Signature 				

City of

TECUMSEH

MICHIGAN



Comprehensive Annual Financial Report

Year End June 30, 2005

CITY OF TECUMSEH, MICHIGAN
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Fiscal Year Ended
June 30, 2005

Prepared by:
Treasurer's Department

CITY OF TECUMSEH, MICHIGAN
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2005

TABLE OF CONTENTS

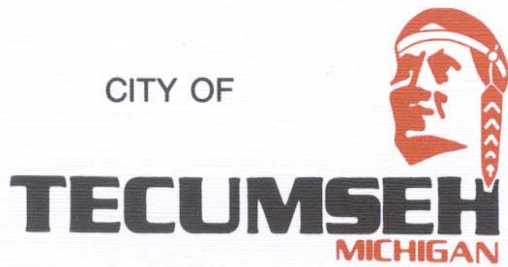
	<u>PAGE</u>
 <i>INTRODUCTORY SECTION</i>	
Letter of Transmittal	i-iv
GFOA Certificate of Achievement	v
Organizational Chart	vi
List of Elected and Appointed Officials.....	vii
 <i>FINANCIAL SECTION</i>	
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis.....	3-14
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	15
Statement of Activities.....	16-17
Fund Financial Statements:	
Balance Sheet – Governmental Funds	18
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	21
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual:	
General Fund.....	22-23
Municipal Purchase Fund.....	24
Statement of Net Assets – Proprietary Funds	25
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	26
Reconciliation of the Statement of Revenues, Expenses and Changes in Fund Net Assets of Enterprise Funds to the Statement of Activities.....	27
Statement of Cash Flows – Proprietary Funds.....	28-29
Statement of Fiduciary Net Assets – Fiduciary Funds.....	30
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds – Employees' Retirement System Pension Trust Fund.....	31
Combining Statement of Net Assets – Component Units.....	32
Combining Statement of Activities – Component Units	33
Notes to the Financial Statements	34-55

CITY OF TECUMSEH, MICHIGAN
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2005

TABLE OF CONTENTS

	<u>PAGE</u>
Required Supplementary Information:	
Schedule of Funding Progress – Employees Retirement System.....	56
Combining and Individual Fund Financial Statements and Schedules:	
Combining Balance Sheet – Nonmajor Governmental Funds	57
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	58
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Major Street and Trunkline Fund.....	59
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Local Street Fund	60
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Economic Development Fund.....	61
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – PA-48 Fund.....	62
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Civic Auditorium Fund	63
Combining Statement of Fiduciary Net Assets – Agency Funds	64
Combining Statement of Changes in Assets and Liabilities – Agency Funds	65-66
Capital Assets Used in the Operation of Governmental Funds:	
Comparative Schedules by Source.....	67
Schedule by Function and Activity.....	68
Schedule of Changes by Function and Activity.....	69
Statement of Net Assets and Governmental Funds Balance Sheet – Downtown Development Authority Component Unit	70
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance – Downtown Development Authority Component Unit	71
 <i>STATISTICAL SECTION</i>	
Government-wide Revenues by Source	72
Government-wide Expenses by Function	72
General Governmental Revenue by Source	73
General Governmental Expenditures by Function.....	73
Property Tax Levied and Collected	74
Assessed and Estimated Actual Value of Property	75
Property Tax Rates – Direct and Overlapping Governments	76
Revenue Bond Coverage – Water Revenue Bonds.....	77
Ratio of Net General Obligation Bonded Debt to Assessed Value and Net General Obligation Bonded Debt Per Capita	78
Computation of Legal Debt Margin.....	79
Computation of Direct and Overlapping Bonded Debt – General Obligation Bonds	80
Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt to Total General Governmental Expenditures.....	81
Demographic Statistics	82
Property Value, Construction and Bank Deposits.....	83
Principal Taxpayers.....	84
Miscellaneous Statistics	85-86
Salaries and Surety Bonds of Principal Officials – Unaudited	87

INTRODUCTORY SECTION



August 12, 2005

**To the Honorable Mayor, Members of the City Council
and Citizens of the City of Tecumseh:**

State law requires that all local governments, subject to certain size criteria, publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This report is published to fulfill that requirement for the fiscal year ended June 30, 2005.

Management assumes full responsibility for the completeness and reliability of all of the information contained in this report, based on a comprehensive framework of internal control that is established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatement.

Rehmann Robson, a firm of licensed certified public accountants, have issued an unqualified opinion on the City of Tecumseh's financial statements for the year ended June 30, 2005. The independent auditor's report is presented at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The City of Tecumseh, founded in 1824 and incorporated as a city in 1954, is located in southeast Michigan. The City currently has a land area of approximately 5.4 square miles and a population of 8,574 based on the 2000 census. The government is empowered to levy a property tax on both real and personal property located within its boundaries. The government also has the power by state statute to extend its corporate limits by annexation, which is done periodically, when deemed appropriate by the City Council.

The City has operated under the council-manager form of government since 1954. Policymaking and legislative authorities are vested in the governing council, a seven-member council including the mayor. The governing council is responsible, among other things, for passing ordinances and resolutions; making public policy decisions; confirming the appointments of department heads; adopting annual budgets; appointing boards, commissions, and committees; approving contracts; authorizing real estate transactions; approving payments; awarding bids; selling personal property; and hiring the government's manager and attorney. The government's manager is responsible for carrying out the policies and ordinances of the governing council, for supervising the day-to-day operations of the government, and for appointing the heads of the government's departments. The council is elected on a non-partisan basis. Council members are elected to two-year staggered terms with three council members elected each year. The mayor is elected to two-year terms. The mayor and council members are elected at-large.

The City provides a full range of services, including police and fire protection; the construction and maintenance of highways, streets and other infrastructure; sanitary sewage treatment and disposal; water treatment and distribution; economic development; recreational activities; and cultural events. The City is also financially accountable for certain legally separate entities, which are reported separately within the City's financial statements. Additional information on each of these legally separate entities can be found in the notes to the basic financial statements.

The City Council is required to adopt a final budget prior to the start of the fiscal year to which it pertains. This annual budget serves as the foundation for the City's financial planning and control. The budget is prepared by fund, function and department. Department heads may transfer resources within a department as they see fit. Transfers between departments, however, require approval of the governing council.

Factors Affecting Economic Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the environment within which the City operates as described below:

Local economy. The City currently enjoys a favorable economic environment and local indicators point to continued stability, despite the current national economic recession. The region has a varied manufacturing and industrial base that adds to the relative stability of the unemployment rate. Major industries with headquarters or divisions located within the government's boundaries or in close proximity include a refrigeration manufacturer, electrical controls and automobile component manufacturers, and several financial institutions.

The government's central business district is expected to maintain its current 98 percent occupancy rate with a variety of stores, specialty shops, and commercial businesses. Meanwhile, there continues to be a discernable trend toward steady residential growth.

Some of the industrial business base within the City continue to see market forces negatively impact them, both from a business statement and an employment standpoint. The City continues to work with these businesses to offer any type of assistance it can.

Long-term financial planning. Continued economic development looks favorable for the future. The Economic Development Department is promoting additional commercial development projects and implementing an economic enhancement strategy, which primarily targets the downtown and west end commercial districts. The West Chicago Boulevard area is likely to experience increased commercial and residential development in the near future.

These favorable trends are counterbalanced, in large measure, however, by other factors. The increase in the assessed value of taxable property in the City continues to be constrained by the Headlee Amendment (which limits the annual increase in the State Equalized Value of real property) and the provisions of Proposal A (which limits increases in taxable property values to 5% or the rate of inflation, whichever is less). Taken together, these fiscal factors create a trend toward ever-tightening budgets under which the City must operate.

Finally, an increasing financial challenge for the City is the escalating costs for employee benefits, especially for medical insurance and from limited investment income in the employees retirement system. Together, these two issues impose increasing burdens on the City's fiscal structure and pose a possible peril to the long-term stability of City finances. Greater revenue growth or cost containment measures may be necessary to mitigate future stress on City finances.

Relevant financial policies. The City has recently reviewed some of its financial policies and procedures and made changes to ensure that adequate controls are in place. In addition, the city has set a goal of maintaining at least a 15% fund balance in the general fund.

Major initiatives. The City recently purchased 160 acres of land intended for industrial usage. The park, called the Tecumseh Business and Technology Park is the last contiguous parcel of land that could be used to attract additional non-residential tax base.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Tecumseh for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2004. This was the eighth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.


A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance and administration departments. We wish to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. Credit also must be given to the mayor and the governing council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Tecumseh's finances.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Kevin M. Welch". The signature is fluid and cursive, with the first name "Kevin" being more prominent.

Kevin M. Welch
City Manager

A handwritten signature in black ink, appearing to read "Dianne M. Sackett". The signature is cursive, with the first name "Dianne" being the most distinct part.

Dianne M. Sackett
Treasurer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Tecumseh,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



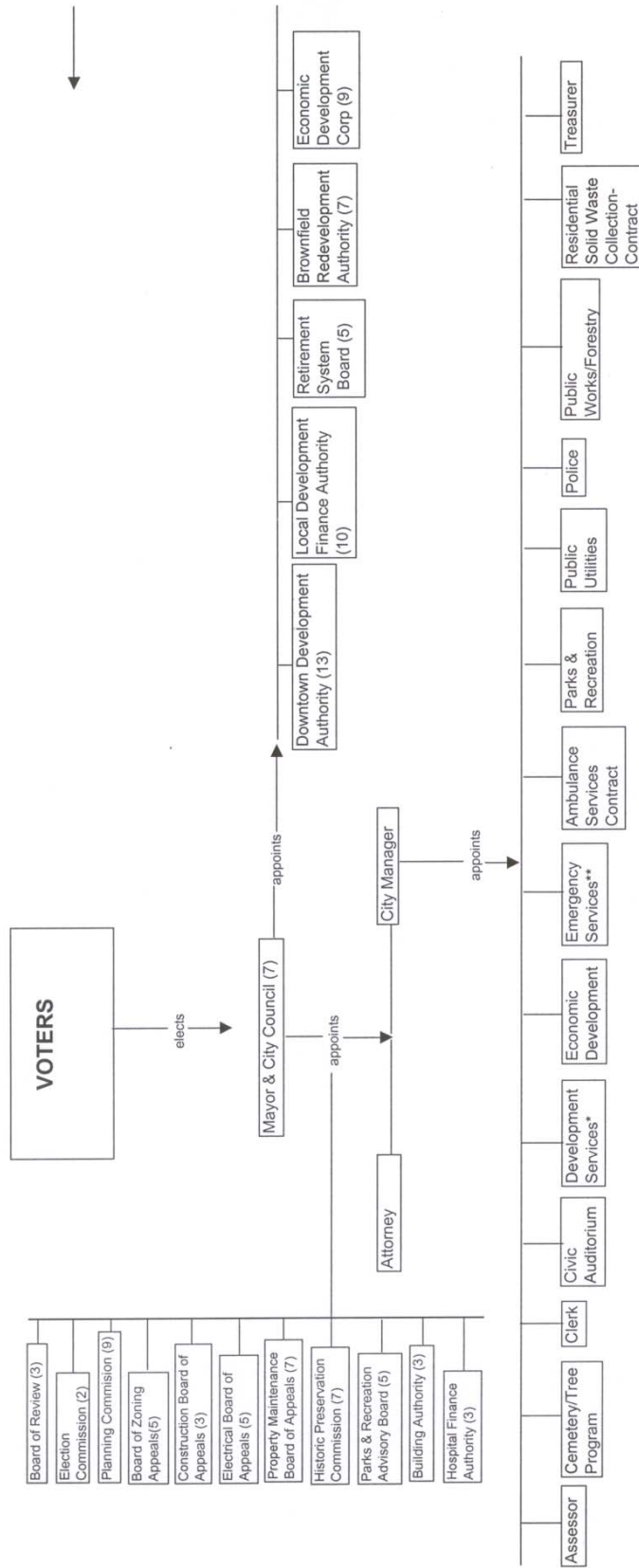
Nancy L. Ziehl

President

Jeffrey R. Emer

Executive Director

CITY OF TECUMSEH ORGANIZATION Citizens/Taxpayers/Residents



*Building, Electrical, and Mechanical Permits, Zoning Administration, Code Enforcement
& Soil Erosion

**Fire, Rescue & Hazardous Materials

Cultural, Traditional, Economics, Financial, Legal, Political, & Social Parameters and Values

CITY OF TECUMSEH, MICHIGAN
List of Elected and Appointed Officials
For the Fiscal Year Ended June 30, 2005

Elected Officials

Mayor
Mayor Pro Tem
Council Member
Council Member
Council Member
Council Member
Council Member

Harvey E. Schmidt
Benjamin J. Baker
Laurence Van Alstine, Jr.
Patricia A. Housekeeper
Mary Deming
Gary Naugle
Troy Wright

Appointed Officials

Manager
Assessor
Cemetery Superintendent
Clerk
Civic Auditorium Executive Director
Development Services Director
Public Works Director
Emergency Services Chief
Parks & Recreation Director
Police Chief
Public Utilities Interim Director
Treasurer
Economic Development Director

Kevin M. Welch
Amanda Lacelle
Dan Righter
Laura Caterina
Robert Steele
Bradley Raymond
Steven Johnston
Joseph C. Tuckey
Pat Paul Sorise
Macklin Haun
Michael Bearinger
Dianne M. Sackett
Paula Holtz

FINANCIAL SECTION



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



INDEPENDENT AUDITORS' REPORT

August 12, 2005

The Honorable Mayor and
Members of the City Council
City of Tecumseh
Lenawee County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **CITY OF TECUMSEH, MICHIGAN**, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Tecumseh, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the general fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-14 and the employees retirement system information on page 54 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Tecumseh's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

Management's Discussion and Analysis

As management of the *City of Tecumseh, Michigan*, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-iv of this report.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$30,651,506 (*net assets*). Of this amount, \$1,093,847 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$296,359.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,739,239, an increase of \$1,348,756 in comparison with the prior year. Approximately 70 percent of this total amount, or \$3,996,283, is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,115,671 or 26 percent of total general fund expenditures.
- The City's total bonded debt increased by \$290,000 during the current fiscal year; \$465,000 of new general obligation bonds were issued during the year. In addition, the City entered into a purchase agreement during the year in the amount of \$2.15 million for the acquisition of land.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, parks and recreation, community development and operation of the civic auditorium. The business-type activities of the City include water and sanitary sewer operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also legally separate entities for which the City is financially accountable. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself. The City of Tecumseh Building Authority, although also legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 15-17 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 15 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, municipal purchase, streetscape project, and civic auditorium trust funds, each of which are considered to be major funds. Data from the other eleven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 18-24 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its wastewater and water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its public works and general maintenance equipment. Because this service predominantly benefits governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the wastewater and water operations, both of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 25-29 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 30-31 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 34-55 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to a schedule concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 56 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 57-66 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Tecumseh, assets exceeded liabilities by \$30,651,506 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (82.8 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (13.6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (3.6 percent or \$1,093,847) may be used to meet the government's ongoing obligations.

City of Tecumseh's Net Assets

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 6,405,270	\$ 4,981,080	\$ 2,069,971	\$ 2,061,136	\$ 8,475,241	\$ 7,042,216
Capital assets	15,210,566	15,156,425	11,223,768	10,506,538	26,434,334	25,662,963
Total assets	21,615,836	20,137,505	13,293,739	12,567,674	34,909,575	32,705,179
Long-term liabilities outstanding	3,518,767	1,002,486	311,366	378,974	3,830,133	1,381,460
Other liabilities	386,027	322,440	41,909	53,414	427,936	375,854
Total liabilities	3,904,794	1,324,926	353,275	432,388	4,258,069	1,757,314
Net assets:						
Invested in capital assets, net of related debt	14,344,766	14,575,225	11,043,768	10,276,538	25,388,534	24,851,763
Restricted	4,102,632	3,214,150	66,493	66,493	4,169,125	3,280,643
Unrestricted	(736,356)	1,023,204	1,830,203	1,792,255	1,093,847	2,815,459
Total net assets	\$ 17,711,042	\$ 18,812,579	\$ 12,940,464	\$ 12,135,286	\$ 30,651,506	\$ 30,947,865

At the end of the current fiscal year, the City reports positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities, except for a deficit in the unrestricted net assets of the governmental activities. Positive balances for all categories were reported the prior fiscal year.

The government's net assets decreased by \$296,359 during the current fiscal year. The primary reason for this decrease was the primary government incurred \$2.15 million of new debt to purchase land during the year, but title to the land was transferred to the Tecumseh Economic Development Corporation. As a result the primary government reports the long-term liability, but not the related capital asset in its financial statements.

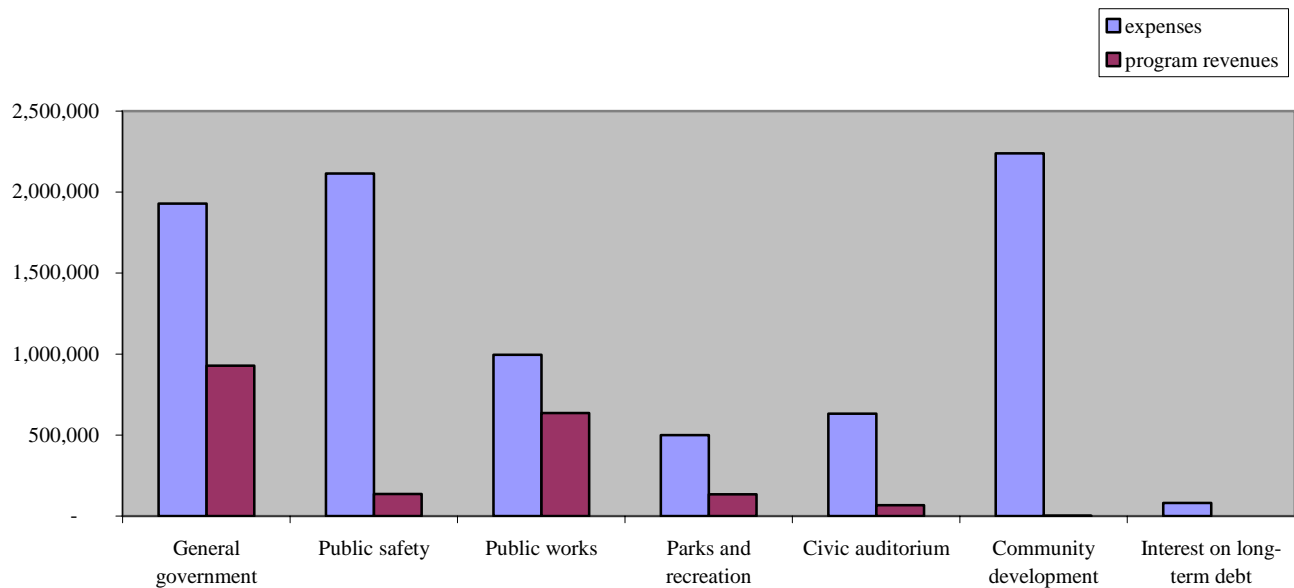
City of Tecumseh's Changes in Net Assets

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue:						
Program revenue:						
Charges for services	\$ 832,422	\$ 706,443	\$ 1,467,569	\$ 1,166,694	\$ 2,299,991	\$ 1,873,137
Operating grants and contributions	635,127	1,297,695	-	-	635,127	1,297,695
Capital grants and contributions	436,220	1,415,418	975,000	658,979	1,411,220	2,074,397
General revenue:						
Property taxes	3,780,738	3,730,787	-	-	3,780,738	3,730,787
Grants and contributions not restricted to specific programs	881,177	900,596	-	-	881,177	900,596
Other	816,374	42,173	36,883	14,356	853,257	56,529
Total revenue	7,382,058	8,093,112	2,479,452	1,840,029	9,861,510	9,933,141
Expenses:						
General government	1,929,198	1,902,129	-	-	1,929,198	1,902,129
Public safety	2,115,183	1,959,801	-	-	2,115,183	1,959,801
Public works	996,158	879,861	-	-	996,158	879,861
Parks and recreation	499,599	509,510	-	-	499,599	509,510
Civic auditorium	632,450	554,277	-	-	632,450	554,277
Community development	2,240,235	200,407	-	-	2,240,235	200,407
Interest on long-term debt	81,822	32,422	-	-	81,822	32,422
Wastewater	-	-	1,043,927	1,063,244	1,043,927	1,063,244
Water	-	-	630,347	617,593	630,347	617,593
Total expenses	8,494,645	6,038,407	1,674,274	1,680,837	10,168,919	7,719,244
Increase in net assets before transfers and contributions to permanent funds	(1,112,587)	2,054,705	805,178	159,192	(307,409)	2,213,897
Contributions to permanent funds	11,050	24,747	-	-	11,050	24,747
Transfers	-	67,996	-	(67,996)	-	-
Increase (decrease) in net assets	(1,101,537)	2,147,448	805,178	91,196	(296,359)	2,238,644
Net assets - beginning of year	18,812,579	16,665,131	12,135,286	12,044,090	30,947,865	28,709,221
Net assets - end of year	\$ 17,711,042	\$ 18,812,579	\$ 12,940,464	\$ 12,135,286	\$ 30,651,506	\$ 30,947,865

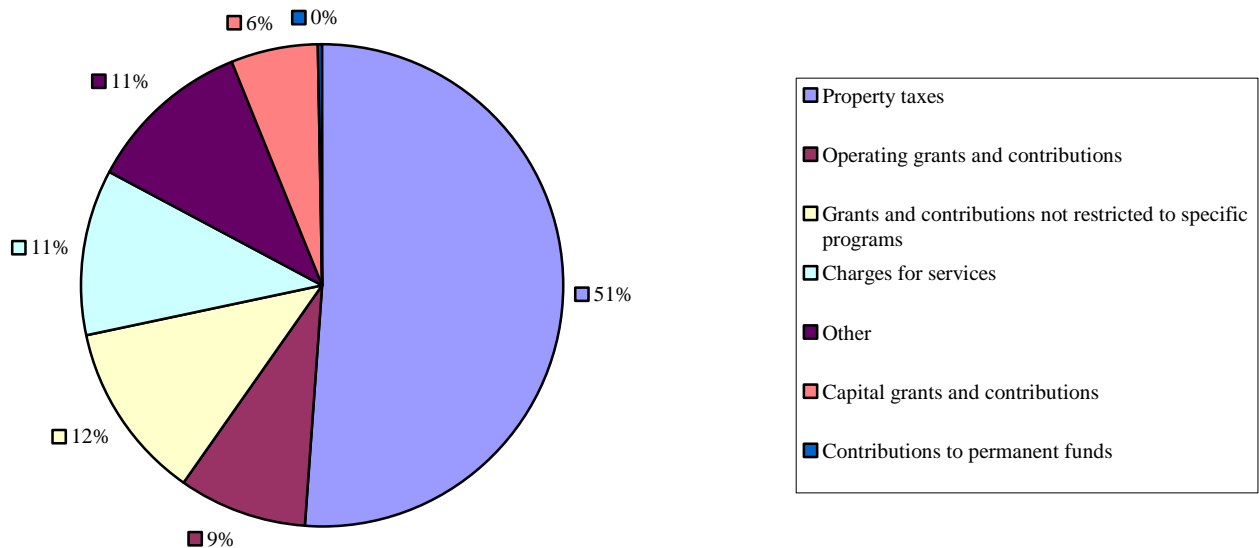
Governmental activities. Governmental activities decreased the City's net assets by \$1,101,537 in the current fiscal year; by comparison, in the prior year governmental activities net assets increased by \$2,147,448, a change of over \$3.2 million. Key elements of this change include:

- The aforementioned acquisition of land costing \$2.15 million for which the debt obligation is being borne by the City but title to the property was transferred to the Tecumseh Economic Development Corporation, a discretely presented component unit of the City.
- Operating grants and contributions decreased by over \$662,000 due primarily to a one-time donation to the Civic Auditorium received in the prior fiscal year.
- Capital grants and contributions declined roughly \$979,000 from an unusually high level of infrastructure contributions received the prior year from residential developers.
- An increase in other general revenue of approximately \$774,000 attributable to the sale of certain land acquired in a prior year (unrelated to the aforementioned land acquisition transaction).

Expenses and Program Revenues - Governmental Activities



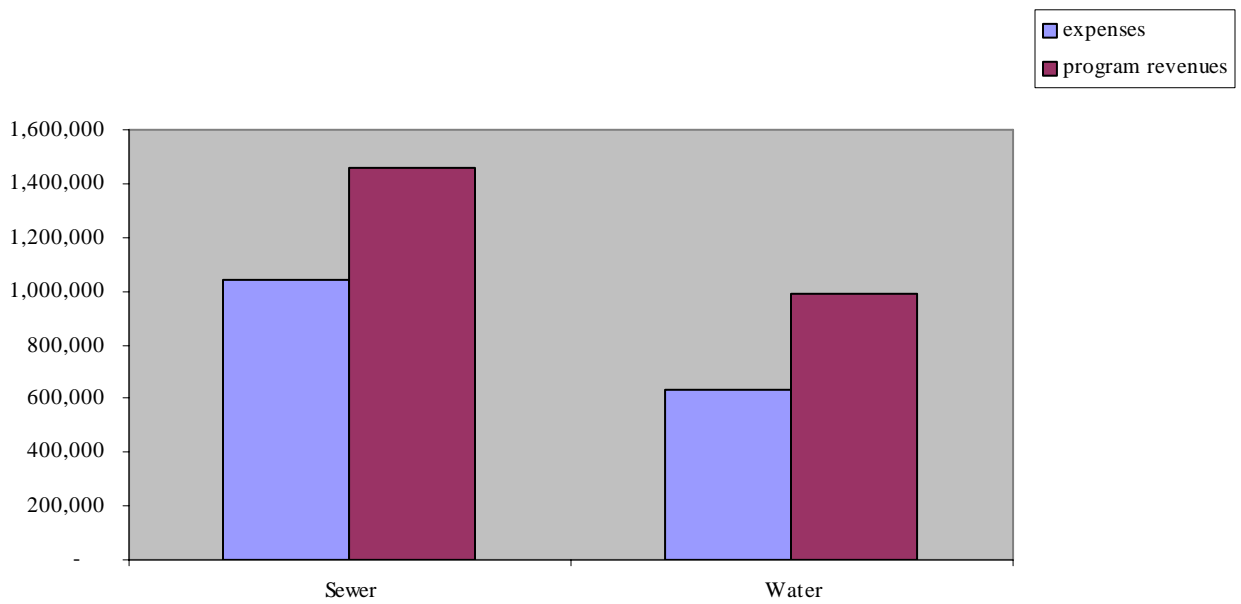
Revenues by Source - Governmental Activities



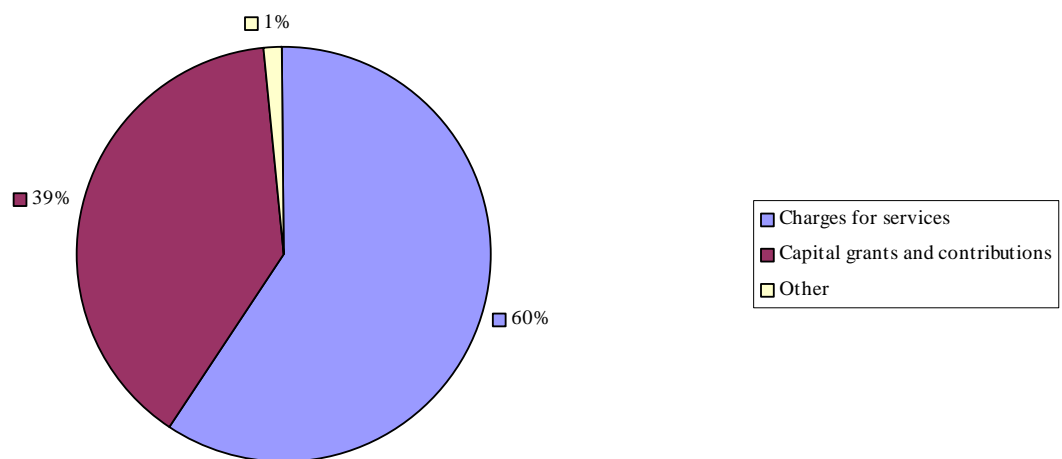
Business-type activities. Business-type activities increased the City's net assets by \$805,178 as compared to an increase of \$91,196 in the previous fiscal year. The key element of the difference between fiscal years is an increase in capital contributions from residential developers from \$458,000 in fiscal 2004 to \$975,000 in fiscal 2005. Water and wastewater tap fees and permits also increased by approximately \$100,000 in fiscal 2005.

Another factor contributing to the positive change in business-type activities net assets is the cessation of transfers for general obligation bond debt service with the retirement of this debt in fiscal 2004. While this debt retirement reduces the outflow of net assets, the City has completed a rate analysis for water and wastewater services, and will be increasing rates for fiscal 2006 by approximately five percent.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,739,239, an increase of \$1,348,756 in comparison with the prior year. Approximately 70% of this total amount (\$3,996,283) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to: a) generate income for the support and maintenance of the civic auditorium (\$1,205,639), b) generate income to pay for the perpetual care of the municipal cemetery (\$444,025), c) acquire public safety equipment and training (\$84,369), and d) for prepaid items (\$8,923).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,115,671, while total fund balance was \$1,200,040. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 26 percent of total general fund expenditures.

The fund balance of the City's general fund increased by \$62,878 during the current fiscal year, as compared to an increase of \$448,394 for the previous fiscal year. In accounting for this change, property tax revenue increased approximately \$163,000 (or 4.67 percent) and transfers out to other funds increased by nearly \$1,385,000 (of which over \$897,000 was funded by the sale of land and used for the streetscape project). Other revenues, expenditures and other financing sources (uses) varied marginally up and down in comparison with the prior year.

The municipal purchase special revenue fund, which was initially established in fiscal 2004 with a \$1,250 transfer from the general fund, ended fiscal 2005 with a total fund balance of \$102,703, an increase of \$102,700. The increase represents the residual monies from a \$2.15 million purchase agreement issued to provide funds for the acquisition of land (as previously mentioned); these residual monies will be used over the next two fiscal years to prepare the property for resale under an economic development initiative.

The streetscape project capital projects fund reported an increase in fund balance for the fiscal year of \$1,212,697, resulting in an ending fund balance of \$1,299,997. The increase in fund balance is attributable to the unspent proceeds of a general obligation bond issuance and a transfer of the proceeds of the sale of land from the general fund. These monies will be spent during fiscal 2006 on West Chicago Street streetscape project.

The civic auditorium trust fund, a permanent fund, has a fund balance of \$1,205,639, which is entirely reserved to generate future income for operations of the civic auditorium. During fiscal 2005, the fund transferred \$553,091 to the civic auditorium, which consisted of an expendable \$500,000 contribution received the previous fiscal year and \$53,091 of current year expendable earnings. By the terms of the trust agreement that provided the original contribution of \$1,000,000 from a local private foundation, any investment earnings not expended during the current year must be added to the principal balance.

Proprietary funds. The City's proprietary funds provide the same type of information found in the business-type activities of the government wide financial statements, but in more detail.

Unrestricted net assets of the wastewater and water funds at the end of the year amounted to \$909,649 and \$941,526, respectively. The wastewater fund had an increase in total net assets for the year of \$433,603, whereas the water fund had an increase of \$383,207. Both of these increases were due in large measure to significant capital contributions by local residential developers. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original and final amended budgets for expenditures were relatively minor and spread across various functions/departments. Most noteworthy of which was a decrease of \$111,000 for public safety (police) primarily attributable to personnel cost reductions. These expenditure reductions were triggered by the need to amend the revenues estimates for property taxes in order to properly take into account mandatory Headlee Amendment limitations that limit growth in property tax revenue to the rate of inflation.

For fiscal 2005, the budgetary estimate for the net change in fund balance was an increase of \$91,639; the actual increase was \$62,878 (or a difference of \$28,761). This difference was attributable to certain equipment purchases accrued at year-end.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2005, amounted to \$26,434,334 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's investment in capital assets for the current fiscal year was 3.0 percent (a 0.4 percent increase for governmental activities and a 6.8 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- Streetscape project at a cost of \$141,871.
- Capital contributions of infrastructure, wastewater and water systems by local residential developers totaling \$1,334,600.

City of Tecumseh's Capital Assets
(net of depreciation)

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 2,453,273	\$ 2,613,273	\$ -	\$ -	\$ 2,453,273	\$ 2,613,273
Land improvements	1,091,746	1,061,781			1,091,746	1,061,781
Buildings and systems	3,634,491	3,800,723	11,120,086	10,400,126	14,754,577	14,200,849
Vehicles	329,372	354,738	-	-	329,372	354,738
Equipment	1,370,711	1,508,365	103,682	106,412	1,474,393	1,614,777
Infrastructure	6,330,973	5,817,545	-	-	6,330,973	5,817,545
Total	\$ 15,210,566	\$ 15,156,425	\$ 11,223,768	\$ 10,506,538	\$ 26,434,334	\$ 25,662,963

Additional information on the City's capital assets can be found in note III.C on pages 45-46 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$935,000. Of this amount, \$755,000 is comprised of debt backed by the full faith and credit of the government. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

City of Tecumseh's Outstanding Debt
General Obligation and Revenue Bonds

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 755,000	\$ 415,000	\$ -	\$ -	\$ 755,000	\$ 415,000
Revenue bonds	-	-	180,000	230,000	180,000	230,000
Total	\$ 755,000	\$ 415,000	\$ 180,000	\$ 230,000	\$ 935,000	\$ 645,000

The City's total bonded debt increased by \$290,000 (45.0 percent) during the current fiscal year, with one new general obligation bond issuance in the amount of \$465,000.

The City has a “A” rating from Standard & Poor’s.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City is \$22.9 million, which is significantly in excess of the City’s outstanding general obligation debt.

Additional information on the City’s long-term debt can be found in note III.F on pages 48-51 of this report.

Economic Factors and Next Year’s Budgets and Rates

The following factors were considered in preparing the City’s budget for the 2005-06 fiscal year:

- The overall plan for the budget was to maintain services in the community by providing a well staffed, equipped and trained work force.
- To be sensitive to factors that may influence revenue projections, such as cuts to state shared revenue and potential plant closings that may increase unemployment rates, occupancy rates and reductions in personal property.
- The City also wants to ensure that it has funding for streets, roads and other capital improvement projects by earmarking funds for future use.

During the current fiscal year, unreserved fund balance in the general fund increased by \$42,647 to \$1,115,671. The City has appropriated \$28,743 of general fund unreserved fund balance for spending in the 2005-06 fiscal year budget.

Requests for Information

This financial report is designed to provide a general overview of the City’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer, 309 East Chicago Boulevard, Tecumseh, Michigan 49286.

CITY OF TECUMSEH, MICHIGAN
Statement of Net Assets
June 30, 2005

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 3,217,795	\$ 619,871	\$ 3,837,666	\$ 145,231
Investments	2,854,934	-	2,854,934	-
Receivables	247,060	39,669	286,729	35
Internal balances	20,972	(20,972)	-	-
Prepaid items and other assets	8,923	1,854	10,777	-
Unamortized bond issuance costs	32,221	-	32,221	55,552
Restricted cash	23,365	911,817	935,182	-
Restricted investments	-	517,732	517,732	-
Capital assets not being depreciated	2,453,273	-	2,453,273	2,056,000
Capital assets being depreciated, net	12,757,293	11,223,768	23,981,061	-
Total assets	21,615,836	13,293,739	34,909,575	2,256,818
Liabilities				
Accounts payable and accrued expenses	329,896	39,569	369,465	79,696
Accrued interest payable	56,131	2,340	58,471	5,817
Unamortized bond premium	-	-	-	13,029
Long-term liabilities:				
Due within one year	424,816	103,302	528,118	70,000
Due in more than one year	3,093,951	208,064	3,302,015	1,410,000
Total liabilities	3,904,794	353,275	4,258,069	1,578,542
Net Assets				
Invested in capital assets, net of related debt	14,344,766	11,043,768	25,388,534	2,056,000
Restricted for:				
Civic auditorium:				
Operations	757,521	-	757,521	-
Endowment - nonexpendable	1,205,639	-	1,205,639	-
Debt service	124,453	66,493	190,946	2,290
Capital projects	83,925	-	83,925	22,887
Perpetual care - nonexpendable	444,025	-	444,025	-
Other purposes	1,487,069	-	1,487,069	-
Unrestricted (deficit)	(736,356)	1,830,203	1,093,847	(1,402,901)
Total net assets	\$ 17,711,042	\$ 12,940,464	\$ 30,651,506	\$ 678,276

The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Statement of Activities
For the Year Ended June 30, 2005

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government					
Governmental activities:					
General government	\$ 1,929,198	\$ 538,265	\$ -	\$ 390,660	\$ (1,000,273)
Public safety	2,115,183	94,584	30,800	11,100	(1,978,699)
Public works	996,158	-	636,140	-	(360,018)
Parks and recreation	499,599	98,947	-	34,460	(366,192)
Civic auditorium	632,450	100,626	(33,215)	-	(565,039)
Community development	2,240,235	-	1,402	-	(2,238,833)
Interest on long-term debt	81,822	-	-	-	(81,822)
Total governmental activities	<u>8,494,645</u>	<u>832,422</u>	<u>635,127</u>	<u>436,220</u>	<u>(6,590,876)</u>
Business-type activities:					
Wastewater	1,043,927	841,426	-	615,000	412,499
Water	630,347	626,143	-	360,000	355,796
Total business-type activities	<u>1,674,274</u>	<u>1,467,569</u>	<u>-</u>	<u>975,000</u>	<u>768,295</u>
Total primary government	<u>\$ 10,168,919</u>	<u>\$ 2,299,991</u>	<u>\$ 635,127</u>	<u>\$ 1,411,220</u>	<u>\$ (5,822,581)</u>
Component units					
Community development	\$ 142,775	\$ -	\$ -	\$ 25,396	\$ (117,379)
Economic development	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000,000</u>	<u>2,000,000</u>
Total component units	<u>\$ 142,775</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,025,396</u>	<u>\$ 1,882,621</u>

continued...

CITY OF TECUMSEH, MICHIGAN
Statement of Activities (Concluded)
For the Year Ended June 30, 2005

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	\$ (6,590,876)	\$ 768,295	\$ (5,822,581)	\$ 1,882,621
General revenues:				
Property taxes	3,780,738	-	3,780,738	209,967
Grants and contributions not restricted to specific programs	881,177	-	881,177	-
Unrestricted investment earnings	66,782	36,883	103,665	3,149
Gain on sale of capital assets	749,592	-	749,592	-
Contributions to permanent funds	11,050	-	11,050	-
Total general revenues and contributions	5,489,339	36,883	5,526,222	213,116
Change in net assets	(1,101,537)	805,178	(296,359)	2,095,737
Net assets (deficit), beginning of year	18,812,579	12,135,286	30,947,865	(1,417,461)
Net assets, end of year	\$ 17,711,042	\$ 12,940,464	\$ 30,651,506	\$ 678,276

The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Balance Sheet
Governmental Funds
June 30, 2005

	<u>General</u>	<u>Municipal Purchase</u>	<u>Streetscape Project</u>	<u>Civic Auditorium Trust</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>						
Assets						
Cash and cash equivalents	\$ 739,709	\$ 107,564	\$ 1,438,567	\$ 11,492	\$ 631,723	\$ 2,929,055
Investments	428,782	-	-	1,184,686	1,241,466	2,854,934
Accounts receivable	105,331	-	-	-	53,540	158,871
Special assessments receivable	74,464	-	-	-	-	74,464
Accrued interest receivable	-	-	-	9,461	3,237	12,698
Prepaid items	-	-	-	-	8,923	8,923
Restricted cash	-	-	-	-	23,365	23,365
<u>TOTAL ASSETS</u>	<u>\$ 1,348,286</u>	<u>\$ 107,564</u>	<u>\$ 1,438,567</u>	<u>\$ 1,205,639</u>	<u>\$ 1,962,254</u>	<u>\$ 6,062,310</u>
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities						
Accounts payable / accrued liabilities	\$ 148,246	\$ 4,861	\$ 138,570	\$ -	\$ 31,394	\$ 323,071
Fund balances:						
Reserved for:						
Civic auditorium	-	-	-	1,205,639	-	1,205,639
Perpetual care	-	-	-	-	444,025	444,025
Public safety equipment and training	84,369	-	-	-	-	84,369
Prepaid items	-	-	-	-	8,923	8,923
Unreserved:						
Designated for subsequent year	28,743	94,269	14,181	-	-	137,193
Undesignated	1,086,928	8,434	1,285,816	-	-	2,381,178
Designated for subsequent year - special revenue fund	-	-	-	-	38,465	38,465
Undesignated, reported in nonmajor:						
Special revenue funds	-	-	-	-	1,139,321	1,139,321
Debt service funds	-	-	-	-	124,453	124,453
Capital projects funds	-	-	-	-	83,925	83,925
Permanent fund	-	-	-	-	91,748	91,748
Total fund balances	<u>1,200,040</u>	<u>102,703</u>	<u>1,299,997</u>	<u>1,205,639</u>	<u>1,930,860</u>	<u>5,739,239</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 1,348,286</u>	<u>\$ 107,564</u>	<u>\$ 1,438,567</u>	<u>\$ 1,205,639</u>	<u>\$ 1,962,254</u>	<u>\$ 6,062,310</u>

The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2005

Fund balances - total governmental funds	\$ 5,739,239
--	--------------

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	20,553,186
Deduct - accumulated depreciation	(5,946,523)

An internal service fund is used by management to charge the costs of certain equipment usage to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add - net assets of governmental activities accounted for in the internal service fund	907,817
--	---------

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds and purchase agreements payable	(3,015,800)
Deduct - accrued interest on bonds payable	(56,131)
Add - unamortized bond issuance costs	32,221
Deduct - compensated absences and other long-term liabilities	(502,967)

Net assets of governmental activities	<u><u>\$ 17,711,042</u></u>
---------------------------------------	-----------------------------

The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	General	Municipal Purchase	Streetscape Project	Civic Auditorium Trust	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes and special assessments	\$ 3,641,641	\$ -	\$ -	\$ -	\$ 139,097	\$ 3,780,738
Licenses and permits	213,289	-	-	-	-	213,289
Intergovernmental	862,887	-	-	-	633,821	1,496,708
Charges for services	381,122	-	-	-	128,676	509,798
Fines and forfeits	36,584	-	-	-	-	36,584
Investment earnings	72,524	1,402	2,743	64,366	(63,082)	77,953
Contributions	42,878	-	-	-	19,354	62,232
Other revenues	56,447	-	-	-	-	56,447
Total revenues	<u>5,307,372</u>	<u>1,402</u>	<u>2,743</u>	<u>64,366</u>	<u>857,866</u>	<u>6,233,749</u>
Expenditures						
Current:						
General government	1,841,889	-	-	-	-	1,841,889
Public safety	1,894,503	-	-	-	46,400	1,940,903
Public works	46,483	-	-	-	894,651	941,134
Parks and recreation	502,449	-	-	-	-	502,449
Civic auditorium	-	-	-	-	580,206	580,206
Community development	-	2,021,783	141,871	-	185,962	2,349,616
Debt service:						
Principal	55,400	-	-	-	125,000	180,400
Interest and fiscal charges	15,243	-	-	-	16,960	32,203
Bond and debt issuance costs	-	23,919	10,515	-	-	34,434
Total expenditures	<u>4,355,967</u>	<u>2,045,702</u>	<u>152,386</u>	<u>-</u>	<u>1,849,179</u>	<u>8,403,234</u>
Revenues over (under) expenditures	<u>951,405</u>	<u>(2,044,300)</u>	<u>(149,643)</u>	<u>64,366</u>	<u>(991,313)</u>	<u>(2,169,485)</u>
Other financing sources (uses)						
Transfers in	99,000	-	897,340	-	1,546,519	2,542,859
Transfers out	(1,890,768)	(3,000)	-	(553,091)	(96,000)	(2,542,859)
General obligation bonds issued	-	-	465,000	-	-	465,000
Purchase agreements issued	-	2,150,000	-	-	-	2,150,000
Issuance of capital lease	5,901	-	-	-	-	5,901
Proceeds from sale of capital assets	897,340	-	-	-	-	897,340
Total other financing sources (uses)	<u>(888,527)</u>	<u>2,147,000</u>	<u>1,362,340</u>	<u>(553,091)</u>	<u>1,450,519</u>	<u>3,518,241</u>
Net changes in fund balances	62,878	102,700	1,212,697	(488,725)	459,206	1,348,756
Fund balances, beginning of year	<u>1,137,162</u>	<u>3</u>	<u>87,300</u>	<u>1,694,364</u>	<u>1,471,654</u>	<u>4,390,483</u>
Fund balances, end of year	<u>\$ 1,200,040</u>	<u>\$ 102,703</u>	<u>\$ 1,299,997</u>	<u>\$ 1,205,639</u>	<u>\$ 1,930,860</u>	<u>\$ 5,739,239</u>

The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2005

Net change in fund balances - total governmental funds \$ 1,348,756

Amounts reported for *governmental activities* in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their estimated
useful lives and reported as depreciation expense.

Add - capital outlay	812,881
Deduct - depreciation expense	(510,117)
Deduct - loss on disposal of capital assets	(167,815)

Bond proceeds provide current financial resources to governmental funds in the period
issued, but issuing bonds increases long-term liabilities in the statement of net assets.
Repayment of bond principal is an expenditure in the governmental funds, but the
repayment reduces long-term liabilities in the statement of net assets.

Deduct - proceeds from the issuance of bonds, purchase agreements and capital leases	(2,620,901)
Add - bond/debt issuance costs	34,434
Add - principal payments on long-term liabilities	180,400
Deduct - amortization of bond/debt issuance costs	(2,213)

An internal service fund is used by management to charge the costs of certain
equipment usage to individual governmental funds. The net revenue (expense)
attributable to those funds is reported with governmental activities.

Add - interest revenue from governmental internal service fund	4,491
Add - net gain on disposal of capital assets in governmental internal service fund	20,067
Deduct - net operating loss from governmental activities in internal service fund	(75,438)

Some expenses reported in the statement of activities do not require the use of current
financial resources and therefore are not reported as expenditures in the funds.

Deduct - decrease in accrued interest payable on bonds	(49,619)
Deduct - decrease in the accrual for compensated absences	(76,463)

Change in net assets of governmental activities	\$ (1,101,537)
---	----------------

The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2005

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Taxes and special assessments	\$ 3,906,275	\$ 3,641,641	\$ 3,641,641	\$ -
Licenses and permits	219,100	213,289	213,289	-
Intergovernmental	874,028	862,887	862,887	-
Charges for services	352,425	381,122	381,122	-
Fines and forfeits	42,000	36,584	36,584	-
Investment earnings	32,725	72,536	72,524	(12)
Contributions	50,000	42,878	42,878	-
Other revenues	31,000	56,447	56,447	-
Total revenues	<u>5,507,553</u>	<u>5,307,384</u>	<u>5,307,372</u>	<u>(12)</u>
Expenditures				
General government:				
Salaries and wages	472,965	475,736	475,736	-
Fringe benefits	202,202	199,369	199,369	-
Office expenditures	117,000	101,488	107,388	5,900
Contractual services	686,896	660,098	660,098	-
Insurance	52,543	47,733	47,733	-
Street lighting	88,580	91,592	91,592	-
Cemetery	192,255	197,439	197,439	-
Other expenditures	45,500	52,196	52,196	-
Capital outlay	33,306	24,954	24,954	-
Less: reimbursements	(18,616)	(14,616)	(14,616)	-
Total general government	<u>1,872,631</u>	<u>1,835,989</u>	<u>1,841,889</u>	<u>5,900</u>
Public safety:				
Police	1,544,303	1,432,817	1,461,567	28,750
Fire	462,419	432,936	432,936	-
Total public safety	<u>2,006,722</u>	<u>1,865,753</u>	<u>1,894,503</u>	<u>28,750</u>
Public works:				
Sidewalks	82,384	28,587	28,587	-
Downtown parking lot	-	17,896	17,896	-
Total public works	<u>82,384</u>	<u>46,483</u>	<u>46,483</u>	<u>-</u>

continued...

CITY OF TECUMSEH, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Concluded)
General Fund
For the Year Ended June 30, 2005

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Expenditures (Concluded)				
Parks and recreation:				
Parks Division	\$ 125,179	\$ 135,863	\$ 135,863	\$ -
Administrative Division	196,199	189,801	189,801	-
Recreation Division	167,742	158,244	158,244	-
Community Center Division	31,055	18,541	18,541	-
Total parks and recreation	<u>520,175</u>	<u>502,449</u>	<u>502,449</u>	<u>-</u>
Debt service:				
Principal	62,139	55,400	55,400	-
Interest and fiscal charges	<u>65,000</u>	<u>15,243</u>	<u>15,243</u>	<u>-</u>
	<u>127,139</u>	<u>70,643</u>	<u>70,643</u>	<u>-</u>
 Total expenditures	 <u>4,609,051</u>	 <u>4,321,317</u>	 <u>4,355,967</u>	 <u>34,650</u>
 Revenues over expenditures	 <u>898,502</u>	 <u>986,067</u>	 <u>951,405</u>	 <u>(34,662)</u>
Other financing sources (uses)				
Transfers in	96,000	99,000	99,000	-
Transfers out	(990,428)	(1,890,768)	(1,890,768)	-
Issuance of capital lease	-	-	5,901	5,901
Proceeds from sale of capital assets	<u>-</u>	<u>897,340</u>	<u>897,340</u>	<u>-</u>
Total other financing (uses)	<u>(894,428)</u>	<u>(894,428)</u>	<u>(888,527)</u>	<u>5,901</u>
 Net changes in fund balance	 4,074	 91,639	 62,878	 (28,761)
 Fund balance, beginning of year	 <u>1,141,657</u>	 <u>1,137,162</u>	 <u>1,137,162</u>	 <u>-</u>
 Fund balance, end of year	 <u><u>\$ 1,145,731</u></u>	 <u><u>\$ 1,228,801</u></u>	 <u><u>\$ 1,200,040</u></u>	 <u><u>\$ (28,761)</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Municipal Purchase Fund
For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under) Final Budget</u>
Revenues				
Investment earnings	\$ -	\$ 1,403	\$ 1,402	\$ (1)
Expenditures				
Community development	2,000,000	121,783	2,021,783	1,900,000
Debt service - bond and debt issuance costs	-	21,881	23,919	2,038
Total expenditures	2,000,000	143,664	2,045,702	1,902,038
Revenues (under) expenditures	(2,000,000)	(142,261)	(2,044,300)	(1,902,039)
Other financing sources				
Transfers out	-	(3,000)	(3,000)	-
Purchase agreements issued	2,100,000	247,961	2,150,000	1,902,039
Total other financing sources	2,100,000	244,961	2,147,000	1,902,039
Net changes in fund balance	100,000	102,700	102,700	-
Fund balance, beginning of year	3	3	3	-
Fund balance, end of year	<u>\$ 100,003</u>	<u>\$ 102,703</u>	<u>\$ 102,703</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Statement of Net Assets
Proprietary Funds
June 30, 2005

	Business-type Activities - Enterprise Funds			Governmental Activities Internal Service Fund
	Wastewater	Water	Total	
Assets				
Current assets:				
Cash and cash equivalents	\$ 265,228	\$ 354,643	\$ 619,871	\$ 288,740
Accounts receivable	-	39,669	39,669	1,027
Total current assets	<u>265,228</u>	<u>394,312</u>	<u>659,540</u>	<u>289,767</u>
Noncurrent assets:				
Restricted cash and cash equivalents	753,382	158,435	911,817	-
Restricted investments	-	517,732	517,732	-
Property and equipment - net	9,025,876	2,197,892	11,223,768	603,903
Other assets - unamortized discount	-	1,854	1,854	-
Total noncurrent assets	<u>9,779,258</u>	<u>2,875,913</u>	<u>12,655,171</u>	<u>603,903</u>
Total assets	<u>10,044,486</u>	<u>3,270,225</u>	<u>13,314,711</u>	<u>893,670</u>
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	15,968	23,601	39,569	6,825
Accrued interest payable	-	2,340	2,340	-
Accrued compensated absences, current portion	33,347	14,955	48,302	-
Revenue bonds payable, current portion	-	55,000	55,000	-
Total current liabilities	<u>49,315</u>	<u>95,896</u>	<u>145,211</u>	<u>6,825</u>
Noncurrent liabilities:				
Accrued compensated absences, net of current portion	59,646	23,418	83,064	-
Revenue bonds payable, net of current portion	-	125,000	125,000	-
Total noncurrent liabilities	<u>59,646</u>	<u>148,418</u>	<u>208,064</u>	<u>-</u>
Total liabilities	<u>108,961</u>	<u>244,314</u>	<u>353,275</u>	<u>6,825</u>
Net Assets				
Invested in capital assets, net of related debt	9,025,876	2,017,892	11,043,768	603,903
Restricted for bond reserve account	-	62,000	62,000	-
Restricted for bond redemption account	-	4,493	4,493	-
Unrestricted	<u>909,649</u>	<u>941,526</u>	<u>1,851,175</u>	<u>282,942</u>
Total net assets	<u>\$ 9,935,525</u>	<u>\$ 3,025,911</u>	<u>12,961,436</u>	<u>\$ 886,845</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			<u>(20,972)</u>	
Net assets of business-type activities on the government- wide statement of net assets			<u>\$12,940,464</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2005

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Wastewater</u>	<u>Water</u>	<u>Total</u>	<u>Internal Service Fund</u>
Operating revenues				
Charges for services	<u>\$ 841,426</u>	<u>\$ 626,143</u>	<u>\$ 1,467,569</u>	<u>\$ 301,597</u>
Operating expenses				
Salaries and wages	316,519	213,398	529,917	57,528
Fringe benefits	165,480	115,174	280,654	19,364
Office expenses	7,740	4,702	12,442	-
Contractual services	41,579	3,646	45,225	-
Insurance	33,654	11,632	45,286	23,616
Supplies and materials	58,390	117,354	175,744	54,555
Utilities	117,110	38,842	155,952	8,943
Depreciation/amortization	280,661	69,623	350,284	213,089
Other expenses	<u>19,786</u>	<u>35,642</u>	<u>55,428</u>	<u>11,572</u>
Total operating expenses	<u>1,040,919</u>	<u>610,013</u>	<u>1,650,932</u>	<u>388,667</u>
Operating income (loss)	<u>(199,493)</u>	<u>16,130</u>	<u>(183,363)</u>	<u>(87,070)</u>
Nonoperating revenues (expenses)				
Gain on sale of equipment	-	-	-	20,067
Investment income	18,096	18,787	36,883	4,491
Interest expense	<u>-</u>	<u>(11,710)</u>	<u>(11,710)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>18,096</u>	<u>7,077</u>	<u>25,173</u>	<u>24,558</u>
Income (loss) before capital contributions	(181,397)	23,207	(158,190)	(62,512)
Capital contributions	<u>615,000</u>	<u>360,000</u>	<u>975,000</u>	<u>-</u>
Change in net assets	433,603	383,207	816,810	(62,512)
Net assets, beginning of year	<u>9,501,922</u>	<u>2,642,704</u>	<u>12,144,626</u>	<u>949,357</u>
Net assets, end of year	<u><u>\$9,935,525</u></u>	<u><u>\$3,025,911</u></u>	<u><u>\$12,961,436</u></u>	<u><u>\$ 886,845</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Reconciliation of the Statement of Revenues, Expenses
and Changes in Fund Net Assets of Enterprise Funds
to the Statement of Activities
For the Year Ended June 30, 2005

Change in net assets - all enterprise funds	\$ 816,810
---	------------

An internal service fund is used by management to charge the costs of certain equipment usage to individual funds. The net revenue (expense) attributable to enterprise funds is reported with business-type activities.

Deduct - net operating gain from business-type activities in internal service fund	<u>(11,632)</u>
--	-----------------

Change in net assets of business-type activities	<u><u>\$ 805,178</u></u>
--	--------------------------

The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

	Business-type Activities - Enterprise Funds			Governmental Activities
	Wastewater	Water	Total	Internal Service Fund
Cash flows from operating activities				
Cash received from customers	\$ 841,426	\$ 616,687	\$ 1,458,113	\$ 24,804
Cash received from interfund services	-	-	-	276,196
Cash payments to employees	(497,179)	(331,000)	(828,179)	(76,892)
Cash payments to suppliers for goods and services	(283,572)	(177,992)	(461,564)	(125,639)
Cash payments for interfund services	(10,180)	(29,187)	(39,367)	-
Net cash provided by operating activities	50,495	78,508	129,003	98,469
Cash flows from capital and related financing activities				
Purchase of capital assets	(49,182)	(42,713)	(91,895)	(136,397)
Bond principal payments	-	(50,000)	(50,000)	-
Bond interest payments	-	(12,360)	(12,360)	-
Proceeds from sale of capital assets	-	-	-	23,500
Net cash (used) by capital and related financing activities	(49,182)	(105,073)	(154,255)	(112,897)
Cash flows from investing activities				
Proceeds from matured investments	-	488,119	488,119	-
Purchase of investments	-	(517,732)	(517,732)	-
Investment income	18,096	18,787	36,883	4,491
Net cash provided (used) by investing activities	18,096	(10,826)	7,270	4,491
Net increase (decrease) in cash and cash equivalents	19,409	(37,391)	(17,982)	(9,937)
Cash and cash equivalents, beginning of year	999,201	550,469	1,549,670	298,677
Cash and cash equivalents, end of year	<u>\$ 1,018,610</u>	<u>\$ 513,078</u>	<u>\$ 1,531,688</u>	<u>\$ 288,740</u>
Reconciliation to statement of net assets				
Cash and cash equivalents	\$ 265,228	\$ 354,643	\$ 619,871	\$ 288,740
Restricted cash and cash equivalents	753,382	158,435	911,817	-
	<u>\$ 1,018,610</u>	<u>\$ 513,078</u>	<u>\$ 1,531,688</u>	<u>\$ 288,740</u>

Continued...

CITY OF TECUMSEH, MICHIGAN
Statement of Cash Flows (Concluded)
Proprietary Funds
For the Year Ended June 30, 2005

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Wastewater</u>	<u>Water</u>	<u>Total</u>	<u>Internal Service Fund</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (199,493)	\$ 16,130	\$ (183,363)	\$ (87,070)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation/amortization	280,661	69,623	350,284	213,089
Changes in assets and liabilities:				
Accounts receivable	-	(9,456)	(9,456)	(597)
Accounts payable and accrued liabilities	(15,493)	4,639	(10,854)	(26,953)
Accrued compensated absences	(15,180)	(2,428)	(17,608)	-
Net cash provided by operating activities	<u>\$ 50,495</u>	<u>\$ 78,508</u>	<u>\$ 129,003</u>	<u>\$ 98,469</u>
Non-Cash				
Capital contributions	<u>\$ 615,000</u>	<u>\$ 360,000</u>	<u>\$ 975,000</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	Employees' Retirement System Pension Trust Fund	Agency Funds
Assets		
Cash and cash equivalents	\$ 743,404	\$ 5,703
Investments:		
Mutual funds	6,481,470	-
Corporate bonds	1,486,000	-
Corporate stocks	4,339,510	-
Delinquent taxes receivable	<u>-</u>	<u>391,259</u>
 Total assets	 <u>13,050,384</u>	 <u><u>\$ 396,962</u></u>
Liabilities		
Accounts payable	-	\$ 101,623
Due to other governments	<u>-</u>	<u>295,339</u>
 Total liabilities	 <u>-</u>	 <u><u>\$ 396,962</u></u>
Net assets		
Held in trust for pension and postemployment healthcare benefits	 <u><u>\$ 13,050,384</u></u>	

The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds - Employees' Retirement System Pension Trust Fund
For the Year Ended June 30, 2005

Additions

Investment income:

Net realized and unrealized appreciation in fair value of investments	\$ 690,119
Interest and dividends	<u>485,310</u>

Total investment income	<u>1,175,429</u>
-------------------------	------------------

Contributions:

City of Tecumseh	519,019
Participants	<u>152,312</u>

Total contributions	<u>671,331</u>
---------------------	----------------

Total additions	<u>1,846,760</u>
-----------------	------------------

Deductions

Participant benefits:

Pension	468,576
Health	<u>26,831</u>
Total participant benefits	<u>495,407</u>

Administrative expenses	22,969
-------------------------	--------

Participant refunds	<u>5,797</u>
---------------------	--------------

Total deductions	<u>524,173</u>
------------------	----------------

Net additions to net assets held in trust for benefits

Employees' pension benefits	\$ 1,278,769	
Postemployment healthcare benefits	<u>43,818</u>	1,322,587

Net assets held in trust for benefits, beginning of year		<u>11,727,797</u>
--	--	-------------------

Net assets held in trust for benefits, end of year

Reserved for employees' pension benefits	12,467,156	
Reserved for employees' postemployment healthcare benefits	<u>583,228</u>	<u><u>\$ 13,050,384</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Combining Statement of Net Assets
Component Units
June 30, 2005

	<u>Downtown Development Authority</u>	<u>Economic Development Corporation</u>	<u>Totals</u>
Assets			
Cash and cash equivalents	\$ 145,231	\$ -	\$ 145,231
Receivables	35	-	35
Unamortized bond issuance costs	55,552	-	55,552
Capital assets not being depreciated	<u>56,000</u>	<u>2,000,000</u>	<u>2,056,000</u>
Total assets	<u>256,818</u>	<u>2,000,000</u>	<u>2,256,818</u>
Liabilities			
Accounts payable and accrued liabilities	79,696	-	79,696
Accrued interest payable	5,817	-	5,817
Unamortized bond premium	13,029	-	13,029
Long-term liabilities:			
Due within one year	70,000	-	70,000
Due in more than one year	<u>1,410,000</u>	<u>-</u>	<u>1,410,000</u>
Total liabilities	<u>1,578,542</u>	<u>-</u>	<u>1,578,542</u>
Net assets			
Invested in capital assets	56,000	2,000,000	2,056,000
Restricted for:			
Debt service	2,290	-	2,290
Capital projects	22,887	-	22,887
Unrestricted (deficit)	<u>(1,402,901)</u>	<u>-</u>	<u>(1,402,901)</u>
Total net assets (deficit)	<u><u>\$ (1,321,724)</u></u>	<u><u>\$ 2,000,000</u></u>	<u><u>\$ 678,276</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF TECUMSEH, MICHIGAN
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2005

	<u>Downtown Development Authority</u>	<u>Economic Development Corporation</u>	<u>Totals</u>
Expenses			
Community development	\$ 142,775	\$ -	\$ 142,775
Economic development	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	142,775	-	142,775
Program revenues			
Capital grants and contributions	<u>25,396</u>	<u>2,000,000</u>	<u>2,025,396</u>
Net program revenue (expense)	<u>(117,379)</u>	<u>2,000,000</u>	<u>1,882,621</u>
General revenues			
Property taxes	209,967	-	209,967
Unrestricted investment earnings	<u>3,149</u>	<u>-</u>	<u>3,149</u>
Total general revenues	<u>213,116</u>	<u>-</u>	<u>213,116</u>
Change in net assets	95,737	2,000,000	2,095,737
Net assets (deficit), beginning of year	<u>(1,417,461)</u>	<u>-</u>	<u>(1,417,461)</u>
Net assets (deficit), end of year	<u><u>\$ (1,321,724)</u></u>	<u><u>\$ 2,000,000</u></u>	<u><u>\$ 678,276</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF TECUMSEH, MICHIGAN

Index

Notes to the Financial Statements

June 30, 2005

	<u>PAGE</u>
I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	
A. Reporting Entity	34
B. Government-wide and Fund Financial Statements.....	35
C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation	35
D. Assets, Liabilities and Equity	38
II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY	
A. Budgetary Information	40
B. Excess of Expenditures Over Appropriations	41
III. DETAILED NOTES ON ALL FUNDS	
A. Deposits and Investments	41
B. Receivables.....	44
C. Capital Assets	45
D. Payables.....	47
E. Interfund Receivables, Payables and Transfers	47
F. Leases	48
G. Long-term Debt	48
H. Segment Information--Enterprise Funds	51
I. Restricted Assets	52
J. Endowments	52
IV. OTHER INFORMATION	
A. Risk Management.....	53
B. Property Taxes.....	53
C. Pension and Postemployment Health Insurance Benefit Plan.....	54

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Tecumseh, Michigan is a municipal corporation governed by a seven-member council and administered by an appointed City manager. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. The blended and discretely presented component units have June 30 year ends.

Blended component unit. The Building Authority is governed by a three member board appointed by the City Council. Its sole function is to oversee the financing and construction, if any, of the City's public buildings; therefore, it is reported as if it were part of the primary government. Currently, there are no such capital projects in process and, therefore, there are no Building Authority funds or activities reported herein.

Discretely presented component units. The Tecumseh Downtown Development Authority (DDA) is responsible for certain projects and activities whose purpose is to revitalize the downtown business district. The members of the DDA's governing board are appointed by the government's council. The DDA is also fiscally dependent upon the government because the government's council approves the DDA's budget and any debt issuances. The DDA does not issue separate financial statements; accordingly, fund financial statements for the DDA are included herein as supplementary information.

The Local Development Finance Authority of the City of Tecumseh (LDFA) is governed by a ten-member board consisting of seven members appointed by the City Manager (subject to City Council approval), one member appointed by Lenawee County, and two members appointed by Tecumseh Public Schools. The LDFA was formed to promote economic growth in the City of Tecumseh, pursuant to Public Act 281 of 1986. The LDFA has no financial activity; as such, no financial statements or information is presented.

The Economic Development Corporation of the City of Tecumseh (EDC) is governed by a nine-member board appointed by the City Manager (subject to City Council approval). The EDC was formed in December 2004 to strengthen and revitalize the City's economy, pursuant to Public Act 338 of 1974, as amended. The EDC's financial activity for fiscal 2004-2005 was limited to taking title to land purchased by the City, for which the City has retained the obligation to service the related long-term debt.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement-based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

Property taxes, franchise taxes, intergovernmental revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *municipal purchase special revenue fund* accounts for monies earmarked by the City for the purchase of governmental capital assets including land and equipment. The primary source of financing is borrowings pursuant to Public Act 99.

The *streetscape project capital projects fund* accounts for monies used for the West Chicago Street streetscape project. The primary source of financing is general obligation bonds and transfers from the general fund (using the proceeds from the sale of land).

The *civic auditorium trust fund* (a permanent fund) accounts for monies held in trust by the City, the investment earnings from which may only be used for the operation and maintenance of the cultural facility.

The government reports the following major proprietary funds:

The *wastewater fund* accounts for the activities of the government's sewage disposal and treatment system.

The *water fund* accounts for the activities of the government's water distribution and treatment system.

Additionally, the government reports the following fund types:

Special revenue funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Debt service funds. These funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Capital projects funds. These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

Permanent funds. These funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs.

The *internal service fund* accounts for fleet and equipment management to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.

The *pension trust fund* accounts for the activities of the Employees Retirement System, which accumulates resources for pension benefit payments to qualified employees.

The *agency funds* account for assets held for other governments in an agency capacity, including tax collections, D.A.R.E. funds and other project funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the wastewater and water enterprise funds and of the government's internal service fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

D. Assets, liabilities and net assets/equity

1. *Deposits and investments*

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

The Pension Trust Fund is authorized by the State's Pension Investment Act, as amended, to invest in common stocks, real estate, and various other investment instruments, subject to certain limitations.

Investments are reported at fair value.

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. *Prepaid items*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements using the consumption method.

4. *Restricted assets*

Certain proceeds of the Water Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. Also, certain resources have been set aside in that and other funds to finance capital asset replacements.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

5. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$3,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Public domain infrastructure	50
System infrastructure	50
Vehicles	7-25
Equipment	5-10

6. *Compensated absences*

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay and 50 percent of sick leave are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

7. *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. **Budgetary information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

On or before the third Monday in April of each year, the City Manager must present the proposed budget to the government's council for review. The Council holds public hearings and a final budget must be prepared and adopted no later than the second Monday in May.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

The appropriated budget is prepared by fund, function and department. The government's department heads may make transfers of appropriations within a department. The *general government* function of the General Fund is treated as a department for budgetary purposes and its budget is adopted at the object level. Transfers of appropriations between departments require the approval of the governing council. The legal level of budgetary control is the department level. Certain supplemental budgetary appropriations were made during the year, which were not considered material.

B. Excess of expenditures over appropriations

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2005, the government incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
General government – office expenditures	\$ 101,488	\$ 107,388	\$ (5,900)
Police	1,432,817	1,461,567	(28,750)
Municipal Purchase Fund:			
Community development	121,783	2,021,783	(1,900,000)
Debt service – bond and debt issuance costs	21,881	23,919	(2,038)

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

At year end, the carrying amount of deposits for the government and component units were \$6,517,114 and \$145,231, respectively. The combined bank balance was \$6,842,953. Of the bank balance, \$250,345 was covered by federal depository insurance. The remaining balance of \$6,592,608 was uninsured and uncollateralized.

The government believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the government evaluates each financial institution with which it deposits government funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

Investments are categorized into these three categories of custodial credit risk:

- (1) Insured or registered, or securities held by the government or its agent in the government's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

At year end, the City's investment balances were categorized as to custodial credit risk as follows:

	<u>Category</u>				Carrying Amount (Fair Value)
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Uncategorized</u>	
U.S. treasuries	\$ 37,451	\$ -	\$ -	\$ -	\$ 37,451
U.S. agencies	1,995,356	-	-	-	1,995,356
Corporate bonds	1,486,000	-	-	-	1,486,000
Corporate stocks	<u>4,682,510</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,682,510</u>
Total categorized investments	<u>\$ 8,201,317</u>	<u>\$ -</u>	<u>\$ -</u>	-	8,201,317
Mutual and cash management funds (uncategorized as to risk)				<u>6,481,470</u>	<u>6,481,470</u>
Total investments				<u>\$6,481,470</u>	<u>\$ 14,682,787</u>

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

As of June 30, 2005, maturities of the City's investments in debt securities were as follows:

	Fair Value	Investment Maturities (fair value by years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. treasuries	\$ 37,451	\$ -	\$ -	\$ -	\$ 37,451
U.S. agencies:					
Callable	1,674,692	-	645,309	444,392	584,991
Non-callable	320,664	49,805	-	270,859	-
Corporate bonds *	1,486,000	-	-	-	1,486,000
	<u>\$ 3,518,807</u>	<u>\$ 49,805</u>	<u>\$ 645,309</u>	<u>\$ 715,251</u>	<u>\$ 2,108,442</u>

* All corporate bonds are callable.

The City assumes that its callable investments will not be called.

All of the City's investments in debt securities of U.S. agencies are rated AAA by both Moody's Investor Service and Standard & Poor's.

The City's investments in corporate bonds were rated as follows:

<u>Moody's</u>	<u>S&P</u>	<u>Amount</u>
not rated	not rated	\$ 491,250
A-1	A	498,500
Aa3	A	496,250
		<u>\$ 1,486,000</u>

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets to deposits and investments as classified for note disclosure purposes is as follows:

	<u>Primary Government</u>	<u>Component Units</u>
Statement of Net Assets:		
Cash and cash equivalents	\$3,837,666	\$ 145,231
Investments	2,854,934	-
Restricted cash	935,182	-
Restricted investments	<u>517,732</u>	<u>-</u>
	<u>8,145,514</u>	<u>145,231</u>

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

	<u>Primary Government</u>	<u>Component Units</u>
Statement of Fiduciary Net Assets:		
Pension Trust Fund:		
Cash and cash equivalents	\$ 743,404	\$ -
Investments	12,306,980	-
Agency Funds:		
Cash and cash equivalents	<u>5,703</u>	<u>-</u>
	<u>13,056,087</u>	<u>-</u>
	<u>\$21,201,601</u>	<u>\$ 145,231</u>
	<u>Primary Government</u>	<u>Component Units</u>
Bank deposits (checking accounts, savings accounts and CDs)	\$ 6,517,114	\$ 145,231
Investments in securities, mutual funds and similar vehicles	14,682,787	-
Cash on hand	<u>1,700</u>	<u>-</u>
	<u>\$21,201,601</u>	<u>\$ 145,231</u>

B. Receivables

Receivables in the governmental activities are 47 percent due from other governments, 30 percent special assessments receivable, and 23 percent other receivables. Business-type activities receivables are composed entirely of amounts due from customers.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended June 30, 2005 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 2,613,273	\$ -	\$ (160,000)	\$ 2,453,273
Capital assets, being depreciated:				
Land improvements	1,089,006	58,657	-	1,147,663
Buildings	6,633,540	-	-	6,633,540
Vehicles	950,886	41,615	(26,832)	965,669
Equipment	3,578,125	182,318	(62,681)	3,697,762
Infrastructure	6,996,356	666,688	-	7,663,044
Total capital assets being depreciated	<u>19,247,913</u>	<u>949,278</u>	<u>(89,513)</u>	<u>20,107,678</u>
Less accumulated depreciation for:				
Land improvements	(27,225)	(28,692)	-	(55,917)
Buildings	(2,832,817)	(166,232)	-	(2,999,049)
Vehicles	(596,148)	(66,980)	26,831	(636,297)
Equipment	(2,069,760)	(308,723)	51,432	(2,327,051)
Infrastructure	(1,178,811)	(153,260)	-	(1,332,071)
Total accumulated depreciation	<u>(6,704,761)</u>	<u>(723,887)</u>	<u>78,263</u>	<u>(7,350,385)</u>
Total capital assets, being depreciated, net	<u>12,543,152</u>	<u>225,391</u>	<u>(11,250)</u>	<u>12,757,293</u>
Governmental activities capital assets, net	<u>\$ 15,156,425</u>	<u>\$ 225,391</u>	<u>\$ (171,250)</u>	<u>\$ 15,210,566</u>
Business-type activities				
Capital assets, being depreciated:				
Buildings and systems	\$ 15,148,784	\$ 1,046,047	\$ -	\$ 16,194,831
Equipment	206,190	20,848	-	227,038
Total capital assets being depreciated	<u>15,354,974</u>	<u>1,066,895</u>	<u>-</u>	<u>16,421,869</u>
Less accumulated depreciation for:				
Buildings and systems	(4,753,045)	(321,700)	-	(5,074,745)
Equipment	(95,391)	(27,965)	-	(123,356)
Total accumulated depreciation	<u>(4,848,436)</u>	<u>(349,665)</u>	<u>-</u>	<u>(5,198,101)</u>
Business-type activities capital assets, net	<u>\$ 10,506,538</u>	<u>\$ 717,230</u>	<u>\$ -</u>	<u>\$ 11,223,768</u>

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

Primary Government

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 38,174
Public safety	171,488
Public works, including depreciation of general infrastructure assets	160,468
Parks and recreation	51,803
Civic auditorium	57,272
Community development	31,593
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>213,089</u>

Total depreciation expense - governmental activities	<u>\$ 723,887</u>
---	--------------------------

Business-type activities:

Wastewater	\$ 280,662
Water	<u>69,003</u>

Total depreciation expense - business-type activities	<u>\$ 349,665</u>
--	--------------------------

Discretely presented component units

The Downtown Development Authority owns land that was originally purchased for \$56,000. There were no increases or decreases to the Authority's capital assets during the year.

The Economic Development Corporation (EDC) holds \$2.0 million of land that was acquired by the City during fiscal 2004-05 and contributed to the EDC by the City. The City is carrying the debt obligation for this transaction (see Note III.G.).

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

D. Payables

Payables in the governmental activities are 85 percent vendors and 15 percent deposits. Business-type activities payables are composed entirely of amounts due to vendors.

E. Interfund receivables, payables and transfers

At June 30, 2005, no amounts were reported as interfund receivables and payables in the fund financial statements. However, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of the Internal Service Fund.

For the year then ended, interfund transfers consisted of the following:

	<u>Transfer from:</u>				<u>Total</u>
	<u>General</u>	<u>Municipal Purchase</u>	<u>Civic Auditorium Trust</u>	<u>Nonmajor Governmental</u>	
Transfer to:					
General	\$ -	\$ 3,000	\$ -	\$ 96,000	\$ 99,000
Streetscape project	897,340	-	-	-	897,340
Nonmajor governmental	993,428	-	553,091	-	1,546,519
	<u>\$ 1,890,768</u>	<u>\$ 3,000</u>	<u>\$ 553,091</u>	<u>\$ 96,000</u>	<u>\$ 2,542,859</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

F. Leases

Capital Leases – The City acquired certain computer equipment under a capital lease. The following is a schedule of future minimum lease payments under this capital lease, together with the present value of the minimum lease payments, as of June 30, 2005:

2006	\$ 1,612
2007	1,612
2008	1,612
2009	806
Less amount representing interest	<u>(423)</u>
Present value of minimum lease payments	<u>\$ 5,219</u>

Operating Leases - The City has commitments under operating lease agreements that provide for annual minimum lease payments as follows:

2006	\$ 5,988
2007	4,788
2008	4,788
2009	4,788
2010	<u>4,788</u>
Total	<u>\$ 25,140</u>

Rental expense for all operating leases aggregated \$5,988 for the year ended June 30, 2005.

G. Long-term debt

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities as well as for a component unit. The original amount of general obligation bonds issued in prior years for the items listed below was \$1,440,000. General obligation bonds amounting to \$465,000 were issued during the current year.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds are issued as 10 to 20-year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities:		
General government	4.7% - 4.8%	\$ 290,000
Public works	2.6% - 4.25%	<u>465,000</u>
		<u>\$ 755,000</u>
Component Unit - Downtown Development Authority:		
General government	3.75% - 5.0%	<u>\$ 1,480,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year ending June 30,</u>	<u>Governmental Activities</u>		<u>Component Unit</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 135,000	\$ 20,754	\$ 70,000	\$ 69,802
2007	165,000	20,975	80,000	67,178
2008	15,000	16,919	90,000	63,978
2009	15,000.00	16,499	95,000	60,332
2010	15,000	16,060	100,000	56,342
2011-2015	130,000	69,878	420,000	207,638
2016-2020	190,000	39,138	495,000	110,360
2021-2022	<u>90,000</u>	<u>3,825</u>	<u>130,000</u>	<u>6,435</u>
	<u>\$ 755,000</u>	<u>\$ 204,048</u>	<u>\$ 1,480,000</u>	<u>\$ 642,065</u>

Revenue bonds. The government also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The original amount of revenue bonds issued in prior years for the item listed below was \$620,000. No revenue bonds were issued during the current year. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Water supply system	5.2%	<u>\$ 180,000</u>

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

Revenue bond debt service requirements to maturity are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 55,000	\$ 9,360
2007	60,000	6,500
2008	<u>65,000</u>	<u>3,380</u>
Total	<u>\$ 180,000</u>	<u>\$ 19,240</u>

Purchase agreements. The government has entered into three purchase agreements for the acquisition of real property, one of which is interest only through July 1, 2019 at which time a balloon principal amount of \$2,150,000 is due. Early principal payments on this agreement may be made without penalty. The original amount of these obligations was \$2,427,000 and carry interest at stated rates of 4.45 to 4.866 percent. Annual debt service requirements to maturity for purchase agreements are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 55,400	\$ 101,048
2007	55,400	98,352
2008	-	97,004
2009	-	97,270
2010	-	97,004
2011-2015	-	485,286
2016-2020	<u>2,150,000</u>	<u>436,385</u>
	<u>\$2,260,800</u>	<u>\$ 1,412,349</u>

Advance refundings. In prior years, the City defeased certain general obligation bonds by placing the proceeds of a new bond issue in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At June 30, 2005, \$475,000 of bonds outstanding are considered defeased.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

Changes in Long-Term Debt. Long-term liability activity for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Primary Government</u>					
Governmental activities					
General obligation bonds	\$ 415,000	\$ 465,000	\$ 125,000	\$ 755,000	\$ 135,000
Purchase agreements	166,200	2,150,000	55,400	2,260,800	55,400
Capital lease	-	5,901	682	5,219	1,410
Compensated absences	421,286	273,675	197,213	497,748	233,006
	<u>\$ 1,002,486</u>	<u>\$ 2,894,576</u>	<u>\$ 378,295</u>	<u>\$ 3,518,767</u>	<u>\$ 424,816</u>
Business-type activities					
Revenue bonds	\$ 230,000	\$ -	\$ 50,000	\$ 180,000	\$ 55,000
Compensated absences	148,974	62,690	80,298	131,366	48,302
	<u>\$ 378,974</u>	<u>\$ 62,690</u>	<u>\$ 130,298</u>	<u>\$ 311,366</u>	<u>\$ 103,302</u>
<u>Component Unit</u>					
General obligation bonds	<u>\$ 1,545,000</u>	<u>\$ -</u>	<u>\$ 65,000</u>	<u>\$ 1,480,000</u>	<u>\$ 70,000</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

H. Segment information--enterprise funds

The government issued revenue bonds to finance certain improvements to its water distribution and treatment system. Because the Water Fund, an individual fund that accounts entirely for the government's water distribution and treatment activities, is a segment and is reported as a major fund in the fund financial statements, segment disclosures herein are not required.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

I. Restricted assets

The balances of the restricted asset accounts are as follows:

	Governmental activities	Business-type activities		
		Wastewater	Water	Total
Civic auditorium contribution	\$ 23,365	\$ -	\$ -	\$ -
Wastewater fund - capital replacement	-	753,382	-	753,382
Water fund:				
Capital replacement	-	-	577,732	577,732
Bond reserve	-	-	93,942	93,942
Bond redemption	-	-	4,493	4,493
Total restricted assets	\$ 23,365	\$ 753,382	\$ 676,167	\$ 1,429,549
Restricted cash	\$ 23,365	\$ 753,382	\$ 158,435	\$ 911,817
Restricted investments	-	-	517,732	517,732
Total restricted assets	\$ 23,365	\$ 753,382	\$ 676,167	\$ 1,429,549

J. Endowments

Civic Auditorium Permanent Trust Fund. For the year ended June 30, 2005, the net appreciation on investments of donor-restricted endowments was \$64,366. Under the terms of the endowment, and consistent with State statutes, the City is authorized based on a total-return policy to spend the net appreciation for the benefit of the civic auditorium. However, any such investment earnings not expended during a particular fiscal year must be added to the nonexpendable principal or endowment balance. Accordingly, no amounts are available for authorized expenditure at year-end.

Cemetery Perpetual Care Permanent Trust Fund. For the year ended June 30, 2005, the net appreciation on investments of perpetual care endowments was \$66,667. Under local ordinances and State statutes, the City is authorized based on a total-return policy to spend the net appreciation on the maintenance of the community cemetery. At June 30, 2005, accumulated available net appreciation of \$91,748 is reported in unrestricted net assets.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

IV. OTHER INFORMATION

A. Risk management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2005, the government carried insurance through various commercial carriers, including the Michigan Municipal League, to cover all risks of losses. The government has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

B. Property taxes

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Lenawee County.

Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the City for the 2004 levy were assessed and equalized at \$250,349,181 (not including properties subject to Industrial Facilities Tax exemption), representing roughly 50% of estimated current market value. The government's general operating tax rate for fiscal year 2004-05 was 14.315 mills, with an additional 0.53 mills levied for general obligation bond retirement.

Property taxes for the DDA are derived from a tax increment financing agreement between the DDA and other related taxing districts. Under this arrangement, the DDA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the City of Tecumseh, which are within the DDA district. Property taxes are recognized in the fiscal year in which they are levied.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

C. Pension and postemployment health insurance benefit plan

The City has a single-employer defined benefit contributory pension plan, the City of Tecumseh Employees' Retirement System (the "Plan"), which provides retirement, death and disability benefits covering all of the City's full-time employees. The Plan also provides postemployment health insurance benefits to certain retirees and their beneficiaries, which are advance-funded on an actuarially determined basis. Membership of the Plan consisted of the following at June 30, 2004, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	24
Terminated plan members entitled to but not yet receiving benefits	3
Active plan members	<u>59</u>
	<u>86</u>

Eligible members are required to contribute 5.5% to 6.73% of their annual compensation to the Plan with the City contributing such additional amounts, as necessary, to provide assets sufficient to pay for member benefits. The City's contribution to the Plan for the year ended June 30, 2005, represents 19.84% of the annual covered payroll.

The City of Tecumseh is the administrator of the Plan. Administrative costs of the Plan are financed through investment earnings. The Plan is included as a pension trust fund in the City's financial statements; a stand-alone financial report of the Plan has not been issued.

Plan amendments are under the authority of the City of Tecumseh Ordinances. Changes in required contributions are subject to the approval of the City of Tecumseh Employees' Retirement System Board and the City Council.

The Plan's financial statements are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which they are due. The City's contributions are recognized when due and the employer has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

Investments are reported at fair value which is determined using selected bases as follows: short-term investments are reported at cost, which approximates fair value; securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates; investments that do not have established fair values are reported at estimated fair value; and cash deposits are reported at carrying amounts which reasonably approximates fair value.

The Plan's annual retirement benefits cost and net retirement benefits obligation for the current year were as follows:

Annual required contribution / retirement benefit cost	\$519,019
Contribution made	<u>519,019</u>
Decrease in net retirement benefit obligation	-
Net retirement benefit obligation, beginning of year	<u>-</u>
Net retirement benefit obligation, end of year	<u><u>\$ -</u></u>

The annual required contribution for the current year was determined as part of an actuarial valuation of the Plan as of June 30, 2003, using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on investments of 7.5%; (b) projected salary increases of 5.5% attributable to inflation; (c) additional projected salary increases ranging from zero to 4.0%, depending on age, attributable to seniority/merit; (d) projected pension benefit increases of 2.8% annually after retirement; and (e) projected annual health care cost increases of 5.5% attributable to inflation.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a four-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over 22 years from June 30, 2004.

Three-Year Trend Information

<u>Year</u> <u>Ending</u>	<u>Annual</u> <u>Retirement</u> <u>Benefit</u> <u>Cost</u> <u>(ARBC)</u>	<u>Percentage</u> <u>of ARBC</u> <u>Contributed</u>	<u>Net</u> <u>Retirement</u> <u>Benefit</u> <u>Obligation</u>
6/30/03	\$403,990	100%	\$ -
6/30/04	456,833	100	-
6/30/05	519,019	100	-

GASB Statement 25 required supplemental information is presented after the Notes to Financial Statements section of this report.

* * * * *

CITY OF TECUMSEH, MICHIGAN

GASB Statement 25 Required Supplementary Information

Employees Retirement System

Schedule of Funding Progress

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date July 1	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL) (2-1)	Funded Ratio (1/2)	Covered Payroll	UAAL as a % of Covered Payroll (3/5)
1995	\$ 5,909,477	\$ 6,352,640	\$ 443,163	93.0 %	\$ 1,484,724	29.8 %
1996	6,183,251	6,688,771	505,520	92.4	1,676,281	30.2
1997	6,643,928	7,166,601	522,673	92.7	1,741,161	30.0
1998	7,429,870	7,784,434	354,564	95.4	1,869,797	19.0
1999	8,286,539	8,451,775	165,236	98.0	2,051,823	8.1
2000	9,497,499	9,623,399	125,900	98.7	2,099,324	6.0
2001	10,334,242	10,390,868	56,626	99.5	2,235,223	2.5
2002	10,796,391	11,476,620	680,229	94.1	2,335,861	29.1
2003	11,326,122	12,831,205	1,505,083	88.3	2,474,789	60.8
2004	11,735,749	13,832,854	2,097,105	84.8	2,542,599	82.5

Schedule of Employer Contributions

Fiscal Year Ended June 30	Annual Required Contribution	Annual Actual Contribution	Percentage Contributed
1996	\$ 74,368	\$ 74,368	100.0 %
1997	111,820	111,820	100.0
1998	299,016	299,016	100.0
1999	328,411	328,411	100.0
2000	322,432	322,432	100.0
2001	343,918	343,918	100.0
2002	376,667	376,667	100.0
2003	403,989	403,989	100.0
2004	456,833	456,833	100.0
2005	519,019	519,019	100.0

CITY OF TECUMSEH, MICHIGAN
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

	Special Revenue Funds				
	Major Street and Trunkline	Local Street	Economic Development	PA-48	Civic Auditorium
<u>ASSETS</u>					
Cash and cash equivalents	\$ 278,513	\$ 110,183	\$ 3,516	\$ -	\$ (2,610)
Investments	-	-	-	-	739,436
Accounts receivable	32,277	11,719	158	9,386	-
Accrued interest receivable	-	-	-	-	3,237
Prepaid items	-	-	-	-	8,923
Restricted cash	-	-	-	-	23,365
<u>TOTAL ASSETS</u>	<u>\$ 310,790</u>	<u>\$ 121,902</u>	<u>\$ 3,674</u>	<u>\$ 9,386</u>	<u>\$ 772,351</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Accounts payable / accrued liabilities	\$ 12,480	\$ 846	\$ 3,238	\$ -	\$ 14,830
Fund Balances					
Reserved for:					
Perpetual care	-	-	-	-	-
Prepaid items	-	-	-	-	8,923
Unreserved:					
Designated for subsequent year	8,462	14,181	436	9,386	6,000
Undesignated	289,848	106,875	-	-	742,598
Total fund balances	298,310	121,056	436	9,386	757,521
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 310,790</u>	<u>\$ 121,902</u>	<u>\$ 3,674</u>	<u>\$ 9,386</u>	<u>\$ 772,351</u>

<u>Debt Service Funds</u>			<u>Capital Projects Funds</u>		<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Wastewater Sinking</u>	<u>1996 GOB</u>	<u>MTF Bonds</u>	<u>S. Maumee Reconstruction</u>	<u>Capital Improvements</u>	<u>Cemetery Care</u>	
\$ 4,829	\$ 54,624	\$ 65,000	\$ 5,268	\$ 78,657	\$ 33,743	\$ 631,723
-	-	-	-	-	502,030	1,241,466
-	-	-	-	-	-	53,540
-	-	-	-	-	-	3,237
-	-	-	-	-	-	8,923
-	-	-	-	-	-	23,365
<u>\$ 4,829</u>	<u>\$ 54,624</u>	<u>\$ 65,000</u>	<u>\$ 5,268</u>	<u>\$ 78,657</u>	<u>\$ 535,773</u>	<u>\$ 1,962,254</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,394</u>
-	-	-	-	-	444,025	444,025
-	-	-	-	-	-	8,923
-	-	-	-	-	-	38,465
<u>4,829</u>	<u>54,624</u>	<u>65,000</u>	<u>5,268</u>	<u>78,657</u>	<u>91,748</u>	<u>1,439,447</u>
<u>4,829</u>	<u>54,624</u>	<u>65,000</u>	<u>5,268</u>	<u>78,657</u>	<u>535,773</u>	<u>1,930,860</u>
<u>\$ 4,829</u>	<u>\$ 54,624</u>	<u>\$ 65,000</u>	<u>\$ 5,268</u>	<u>\$ 78,657</u>	<u>\$ 535,773</u>	<u>\$ 1,962,254</u>

CITY OF TECUMSEH, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2005

	Special Revenue Funds				
	Major Street and Trunkline	Local Street	Economic Development	PA-48	Civic Auditorium
Revenues					
Taxes and special assessments	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	450,780	154,745	-	28,296	-
Charges for services	-	-	-	-	117,626
Investment earnings (loss)	1,419	444	879	456	(133,935)
Contributions	-	-	-	-	19,354
Total revenues	<u>452,199</u>	<u>155,189</u>	<u>879</u>	<u>28,752</u>	<u>3,045</u>
Expenditures					
Public safety	-	-	-	-	-
Public works	554,284	340,367	-	-	-
Civic auditorium	-	-	-	-	580,206
Community development	-	-	185,962	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>554,284</u>	<u>340,367</u>	<u>185,962</u>	<u>-</u>	<u>580,206</u>
Revenues over (under) expenditures	<u>(102,085)</u>	<u>(185,178)</u>	<u>(185,083)</u>	<u>28,752</u>	<u>(577,161)</u>
Other financing sources (uses)					
Transfers in	360,000	250,000	183,928	-	562,591
Transfers out	-	-	-	(51,000)	-
Total other financing sources (uses)	<u>360,000</u>	<u>250,000</u>	<u>183,928</u>	<u>(51,000)</u>	<u>562,591</u>
Net changes in fund balances	257,915	64,822	(1,155)	(22,248)	(14,570)
Fund balances, beginning of year	<u>40,395</u>	<u>56,234</u>	<u>1,591</u>	<u>31,634</u>	<u>772,091</u>
Fund balances, end of year	<u>\$ 298,310</u>	<u>\$ 121,056</u>	<u>\$ 436</u>	<u>\$ 9,386</u>	<u>\$ 757,521</u>

Debt Service Funds			Capital Projects Funds		Permanent Fund	Total Nonmajor
Wastewater Sinking	1996 GOB	MTF Bonds	S. Maumee Reconstruction	Capital Improvements	Cemetery Care	Governmental Funds
\$ 1,106	\$ 137,991	\$ -	\$ -	\$ -	\$ -	\$ 139,097
-	-	-	-	-	-	633,821
-	-	-	-	-	11,050	128,676
59	797	-	75	57	66,667	(63,082)
-	-	-	-	-	-	19,354
1,165	138,788	-	75	57	77,717	857,866
-	-	-	-	46,400	-	46,400
-	-	-	-	-	-	894,651
-	-	-	-	-	-	580,206
-	-	-	-	-	-	185,962
-	125,000	-	-	-	-	125,000
-	16,960	-	-	-	-	16,960
-	141,960	-	-	46,400	-	1,849,179
1,165	(3,172)	-	75	(46,343)	77,717	(991,313)
-	-	65,000	-	125,000	-	1,546,519
-	-	-	-	-	(45,000)	(96,000)
-	-	65,000	-	125,000	(45,000)	1,450,519
1,165	(3,172)	65,000	75	78,657	32,717	459,206
3,664	57,796	-	5,193	-	503,056	1,471,654
\$ 4,829	\$ 54,624	\$ 65,000	\$ 5,268	\$ 78,657	\$ 535,773	\$ 1,930,860

CITY OF TECUMSEH, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Major Street and Trunkline Fund
For the Year Ended June 30, 2005

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Intergovernmental - state	\$ 446,189	\$ 450,780	\$ 450,780	\$ -
Investment earnings	625	1,417	1,419	2
Total revenues	446,814	452,197	452,199	2
Expenditures				
Public Works:				
Street construction	371,942	90,665	90,665	-
Routine maintenance	381,823	333,306	333,306	-
Routine maintenance - bridges	10,782	4,535	4,535	-
Traffic services	20,094	13,690	13,690	-
Winter maintenance	47,580	36,668	36,668	-
Administration	66,489	60,899	60,899	-
Trunkline maintenance	19,550	14,521	14,521	-
Total expenditures	918,260	554,284	554,284	-
Revenues (under) expenditures	(471,446)	(102,087)	(102,085)	2
Other financing sources				
Transfers in	469,000	360,000	360,000	-
Net changes in fund balance	(2,446)	257,913	257,915	2
Fund balance, beginning of year	40,395	40,395	40,395	-
Fund balance, end of year	\$ 37,949	\$ 298,308	\$ 298,310	\$ 2

CITY OF TECUMSEH, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Local Street Fund
For the Year Ended June 30, 2005

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Intergovernmental - state	\$ 158,004	\$ 154,745	\$ 154,745	\$ -
Investment earnings	500	446	444	(2)
Total revenues	158,504	155,191	155,189	(2)
Expenditures				
Public Works:				
Street construction	111,106	45,965	45,965	-
Routine maintenance	248,778	223,822	223,822	-
Winter maintenance	29,583	40,815	40,815	-
Administration	32,456	29,765	29,765	-
Total expenditures	421,923	340,367	340,367	-
Revenues (under) expenditures	(263,419)	(185,176)	(185,178)	(2)
Other financing sources				
Transfers in	263,600	250,000	250,000	-
Net changes in fund balance	181	64,824	64,822	(2)
Fund balance, beginning of year	56,234	56,234	56,234	-
Fund balance, end of year	\$ 56,415	\$ 121,058	\$ 121,056	\$ (2)

CITY OF TECUMSEH, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Economic Development Fund
For the Year Ended June 30, 2005

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Investment earnings	\$ 700	\$ 881	\$ 879	\$ (2)
Expenditures				
Community development	<u>177,792</u>	<u>185,962</u>	<u>185,962</u>	<u>-</u>
Revenues (under) expenditures	(177,092)	(185,081)	(185,083)	(2)
Other financing sources				
Transfers in	<u>176,928</u>	<u>183,928</u>	<u>183,928</u>	<u>-</u>
Net changes in fund balance	(164)	(1,153)	(1,155)	(2)
Fund balance, beginning of year	<u>1,591</u>	<u>1,591</u>	<u>1,591</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 1,427</u></u>	<u><u>\$ 438</u></u>	<u><u>\$ 436</u></u>	<u><u>\$ (2)</u></u>

CITY OF TECUMSEH, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
PA-48 Fund
For the Year Ended June 30, 2005

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Intergovernmental	\$ 32,000	\$ 28,296	\$ 28,296	\$ -
Investment earnings	100	455	456	1
Total revenues	32,100	28,751	28,752	1
Expenditures				
Community development	-	-	-	-
Revenues (under) expenditures	32,100	28,751	28,752	1
Other financing sources				
Transfers out	(51,000)	(51,000)	(51,000)	-
Net changes in fund balance	(18,900)	(22,249)	(22,248)	1
Fund balance, beginning of year	31,634	31,634	31,634	-
Fund balance, end of year	<u>\$ 12,734</u>	<u>\$ 9,385</u>	<u>\$ 9,386</u>	<u>\$ 1</u>

CITY OF TECUMSEH, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Civic Auditorium
For the Year Ended June 30, 2005

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Charges for services	\$ 170,450	\$ 117,626	\$ 117,626	\$ -
Investment earnings (loss)	112,500	(137,176)	(133,935)	3,241
Contributions	30,000	19,354	19,354	-
Total revenues	312,950	(196)	3,045	3,241
Expenditures				
Civic auditorium:				
Salaries and wages	146,392	195,673	195,673	-
Fringe benefits	60,134	68,450	68,450	-
Office expenditures	23,700	23,925	23,925	-
Contractual services	111,500	150,090	150,090	-
Repair and maintenance	38,000	65,746	65,746	-
Utilities	31,000	40,470	40,470	-
Other expenditures	55,600	35,852	35,852	-
Total expenditures	466,326	580,206	580,206	-
Revenues under expenditures	(153,376)	(580,402)	(577,161)	3,241
Other financing sources				
Transfers in	171,117	562,591	562,591	-
Net changes in fund balance	17,741	(17,811)	(14,570)	3,241
Fund balance, beginning of year	772,091	772,091	772,091	-
Fund balance, end of year	\$ 789,832	\$ 754,280	\$ 757,521	\$ 3,241

CITY OF TECUMSEH, MICHIGAN
Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2005

	<u>Current Tax</u>	<u>Delinquent Tax</u>	<u>Lenawee County D.A.R.E.</u>	<u>Police Officers Emergency</u>	<u>Memorial Day Parade</u>	<u>Total</u>
Assets						
Cash and cash equivalents	\$ 2,510	\$ -	\$ 828	\$ 1,622	\$ 743	\$ 5,703
Delinquent taxes receivable	-	391,259	-	-	-	391,259
	<u>-</u>	<u>391,259</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>391,259</u>
Total assets	<u>\$ 2,510</u>	<u>\$ 391,259</u>	<u>\$ 828</u>	<u>\$ 1,622</u>	<u>\$ 743</u>	<u>\$396,962</u>
Liabilities						
Accounts payable	\$ -	\$ 101,533	\$ -	\$ -	\$ 90	\$101,623
Due to other governments	2,510	289,726	828	1,622	653	295,339
	<u>2,510</u>	<u>289,726</u>	<u>828</u>	<u>1,622</u>	<u>653</u>	<u>295,339</u>
Total liabilities	<u>\$ 2,510</u>	<u>\$ 391,259</u>	<u>\$ 828</u>	<u>\$ 1,622</u>	<u>\$ 743</u>	<u>\$396,962</u>

CITY OF TECUMSEH, MICHIGAN
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2005

	Beginning Balance	Additions	Deductions	Ending Balance
<u>Current Tax</u>				
Assets				
Cash	\$ 7,764	\$ 25,236,105	\$ 25,241,359	\$ 2,510
Liabilities				
Accounts payable	\$ 5	\$ 3,857,231	\$ 3,857,236	\$ -
Due to other governments	7,759	8,862,957	8,868,206	2,510
Total liabilities	\$ 7,764	\$ 12,720,188	\$ 12,725,442	\$ 2,510
<u>Delinquent Tax</u>				
Assets				
Cash	\$ -	\$ 71,868	\$ 71,868	\$ -
Delinquent taxes receivable	348,010	82,013	38,764	391,259
Total assets	\$ 348,010	\$ 153,881	\$ 110,632	\$ 391,259
Liabilities				
Accounts payable	\$ 91,868	\$ 22,183	\$ 12,518	\$ 101,533
Due to other governments	256,142	63,269	29,685	289,726
Total liabilities	\$ 348,010	\$ 85,452	\$ 42,203	\$ 391,259
<u>Lenawee County D.A.R.E.</u>				
Assets				
Cash	\$ 3,418	\$ 34	\$ 2,624	\$ 828
Liabilities				
Accounts payable	\$ -	\$ 2,624	\$ 2,624	\$ -
Due to other governments	3,418	34	2,624	828
Total liabilities	\$ 3,418	\$ 2,658	\$ 5,248	\$ 828

Continued...

CITY OF TECUMSEH, MICHIGAN
Combining Statement of Changes in Assets and Liabilities (Concluded)
Agency Funds
For the Year Ended June 30, 2005

	Beginning Balance	Additions	Deductions	Ending Balance
<u>Police Officers Emergency</u>				
Assets				
Cash	\$ 1,599	\$ 23	\$ -	\$ 1,622
Liabilities				
Due to other governments	\$ 1,599	\$ 23	\$ -	\$ 1,622
<u>Memorial Day Parade</u>				
Assets				
Cash	\$ 3,166	\$ 2,849	\$ 5,272	\$ 743
Liabilities				
Accounts payable	\$ 200	\$ 5,112	\$ 5,222	\$ 90
Due to other governments	2,966	2,849	5,162	653
	\$ 3,166	\$ 7,961	\$ 10,384	\$ 743
<u>Total All Agency Funds</u>				
Assets				
Cash	\$ 15,947	\$ 25,310,879	\$ 25,321,123	\$ 5,703
Delinquent taxes receivable	348,010	82,013	38,764	391,259
Total assets	\$ 363,957	\$ 25,392,892	\$ 25,359,887	\$ 396,962
Liabilities				
Accounts payable	\$ 92,073	\$ 3,887,150	\$ 3,877,600	\$ 101,623
Due to other governments	271,884	8,929,132	8,905,677	295,339
Total liabilities	\$ 363,957	\$ 12,816,282	\$ 12,783,277	\$ 396,962

CITY OF TECUMSEH, MICHIGAN
Capital Assets Used in the Operation of Governmental Funds
Comparative Schedules By Source
June 30, 2005

	<u>2005</u>	<u>2004</u>
Governmental Funds Capital Assets:		
Land	\$ 2,453,273	\$ 2,613,273
Land improvements	1,147,663	1,089,006
Buildings	6,505,676	6,505,676
Vehicles	906,657	891,874
Equipment	1,868,927	1,875,617
Infrastructure	<u>6,996,356</u>	<u>6,996,356</u>
 Total Governmental Funds Capital Assets	 <u><u>\$ 19,878,552</u></u>	 <u><u>\$ 19,971,802</u></u>
 Investments in Governmental Funds Capital Assets By Source		
General fund	\$ 9,121,372	\$ 9,214,622
Special revenue funds	6,487,279	6,487,279
Capital projects funds	3,290,152	3,290,152
Donations	<u>979,749</u>	<u>979,749</u>
 Total Investments in Governmental Funds Capital Assets By Source	 <u><u>\$ 19,878,552</u></u>	 <u><u>\$ 19,971,802</u></u>

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service fund are excluded from the above amounts. The capital assets of the internal service fund are included as governmental activities in the statement of net assets.

CITY OF TECUMSEH, MICHIGAN
Capital Assets Used in the Operation of Governmental Funds
Schedule By Function and Activity
June 30, 2005

	Land						
	Land	Improvements	Buildings	Vehicles	Equipment	Infrastructure	Total
General government							
Administration	\$ 525,503	\$ -	\$ 583,583	\$ 13,457	\$ 232,000	\$ -	\$ 1,354,543
Clerk	-	-	-	-	126,726	-	126,726
Assessor	-	-	-	-	6,947	-	6,947
Treasurer	-	-	-	-	20,154	-	20,154
Development services	-	-	-	-	19,730	-	19,730
Economic development	277,000	1,120,066	-	-	8,701	-	1,405,767
Cemetery	-	-	189,383	-	5,000	-	194,383
Total general government	802,503	1,120,066	772,966	13,457	419,258	-	3,128,250
Public safety							
Police	-	-	1,101,146	379,361	136,163	-	1,616,670
Fire	-	-	1,113,430	513,839	773,552	-	2,400,821
Total public safety	-	-	2,214,576	893,200	909,715	-	4,017,491
Public works	-	-	277,901	-	45,698	6,996,356	7,319,955
Parks and recreation	1,518,017	27,597	1,591,194	-	136,934	-	3,273,742
Civic Auditorium	132,753	-	1,649,039	-	357,322	-	2,139,114
Total Governmental Funds							
Capital Assets	<u>\$ 2,453,273</u>	<u>\$ 1,147,663</u>	<u>\$ 6,505,676</u>	<u>\$ 906,657</u>	<u>\$ 1,868,927</u>	<u>\$ 6,996,356</u>	<u>\$ 19,878,552</u>

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service fund are excluded from the above amounts. The capital assets of the internal service fund are included as governmental activities in the statement of net assets.

CITY OF TECUMSEH, MICHIGAN
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes By Function and Activity
For the Year Ended June 30, 2005

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
General government				
Administration	\$ 1,527,978	\$ -	\$ (173,435)	\$ 1,354,543
Clerk	128,195	-	(1,469)	126,726
Assessor	12,998	-	(6,051)	6,947
Treasurer	20,154	-	-	20,154
Development services	20,760	6,449	(7,479)	19,730
Economic development	1,374,707	31,060	-	1,405,767
Cemetery	194,383	-	-	194,383
Total general government	3,279,175	37,509	(188,434)	3,128,250
Public safety				
Police	1,589,353	61,096	(33,779)	1,616,670
Fire	2,388,776	12,045	-	2,400,821
Total public safety	3,978,129	73,141	(33,779)	4,017,491
Public works	7,319,955	-	-	7,319,955
Parks and recreation	3,255,429	27,597	(9,284)	3,273,742
Civic Auditorium	2,139,114	-	-	2,139,114
Total Governmental Funds				
Capital Assets	\$ 19,971,802	\$ 138,247	\$ (231,497)	\$ 19,878,552

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service fund are excluded from the above amounts. The capital assets of the internal service fund are included as governmental activities in the statement of net assets.

CITY OF TECUMSEH, MICHIGAN
Statement of Net Assets and
Governmental Funds Balance Sheet
Downtown Development Authority Component Unit
June 30, 2005

	<u>Special Revenue Operating Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Assets						
Cash and cash equivalents	\$ 120,054	\$ 2,290	\$ 22,887	\$ 145,231	\$ -	\$ 145,231
Receivables	35	-	-	35	-	35
Unamortized bond issuance costs	-	-	-	-	55,552	55,552
Capital assets, net	-	-	-	-	56,000	56,000
Total assets	<u>\$ 120,089</u>	<u>\$ 2,290</u>	<u>\$ 22,887</u>	<u>\$ 145,266</u>	<u>111,552</u>	<u>256,818</u>
Liabilities						
Accounts payable / accrued liabilities	\$ 79,696	\$ -	\$ -	\$ 79,696	-	79,696
Accrued interest payable	-	-	-	-	5,817	5,817
Unamortized bond premium	-	-	-	-	13,029	13,029
Long-term liabilities:						
Due within one year	-	-	-	-	70,000	70,000
Due in more than one year	-	-	-	-	1,410,000	1,410,000
Total liabilities	79,696	-	-	79,696	1,498,846	1,578,542
Fund balances / net assets						
Unreserved, undesignated	40,393	2,290	22,887	65,570	(65,570)	-
Total liabilities and fund balances	<u>\$ 120,089</u>	<u>\$ 2,290</u>	<u>\$ 22,887</u>	<u>\$ 145,266</u>		
Net assets:						
Invested in capital assets					56,000	56,000
Restricted for debt service					2,290	2,290
Restricted for capital projects					22,887	22,887
Unrestricted (deficit)					(1,402,901)	(1,402,901)
Total net assets (deficit)					<u>\$ (1,321,724)</u>	<u>\$ (1,321,724)</u>

CITY OF TECUMSEH, MICHIGAN
Statement of Activities and
Governmental Fund Revenues, Expenditures
and Changes in Fund Balance
Downtown Development Authority Component Unit
For the Year Ended June 30, 2005

	<u>Special Revenue Operating Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/expenses						
Community development	\$ 34,690	\$ -	\$32,375	\$67,065	\$ 3,472	\$ 70,537
Debt service:						
Principal	-	65,000	-	65,000	(65,000)	-
Interest and fiscal charges	-	72,434	-	72,434	(196)	72,238
	<u>34,690</u>	<u>137,434</u>	<u>32,375</u>	<u>204,499</u>	<u>(61,724)</u>	<u>142,775</u>
General revenues						
Property taxes	209,967	-	-	209,967	-	209,967
Intergovernmental	-	-	25,396	25,396	-	25,396
Investment earnings	1,945	32	358	2,335	814	3,149
	<u>211,912</u>	<u>32</u>	<u>25,754</u>	<u>237,698</u>	<u>814</u>	<u>238,512</u>
Excess of general revenues over (under) expenditures/expenses	177,222	(137,402)	(6,621)	33,199	62,538	95,737
Other financing sources (uses)						
Transfers in (out)	(137,434)	137,434	-	-	-	-
Net changes in fund balances	39,788	32	(6,621)	33,199	(33,199)	-
Change in net assets	-	-	-	-	95,737	95,737
Fund balance/net assets (deficit), beginning of year	605	2,258	29,508	32,371	(1,449,832)	(1,417,461)
Fund balance/net assets (deficit), end of year	<u>\$ 40,393</u>	<u>\$ 2,290</u>	<u>\$22,887</u>	<u>\$65,570</u>	<u>\$ (1,387,294)</u>	<u>\$ (1,321,724)</u>

Table 1

CITY OF TECUMSEH, MICHIGAN
Government-wide Revenues by Source - Unaudited
Last Ten Fiscal Years Ended June 30 (1)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Program revenues										
Charges for services	\$ 2,299,991	\$ 1,873,137	\$ 1,899,518	\$ 1,866,749	\$ 1,852,107	\$ -	\$ -	\$ -	\$ -	\$ -
Operating grants and contributions	635,127	1,297,695	711,872	1,109,205	1,182,722	-	-	-	-	-
Capital grants and contributions	1,411,220	2,074,397	658,758	1,299,704	206,081	-	-	-	-	-
General revenues										
Property taxes	3,780,738	3,730,787	3,578,655	3,316,311	3,092,865	-	-	-	-	-
Grants and contributions not restricted to specific programs	881,177	900,596	930,877	1,058,907	1,032,572	-	-	-	-	-
Unrestricted investment earnings	103,665	33,579	68,225	129,502	312,614	-	-	-	-	-
Gain (loss) on sale of capital assets	749,592	22,950	25,335	30,880	(52,129)	-	-	-	-	-
Contributions to permanent funds	11,050	24,747	19,213	15,387	13,188	-	-	-	-	-
	\$ 9,872,560	\$ 9,957,888	\$ 7,892,453	\$ 8,826,645	\$ 7,640,020	\$ -	\$ -	\$ -	\$ -	\$ -

Government-wide Expenses by Function - Unaudited
Last Ten Fiscal Years Ended June 30 (1)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
General government	\$ 1,929,198	\$ 1,902,129	\$ 1,968,749	\$ 1,563,111	\$ 1,737,172	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	2,115,183	1,959,801	2,026,623	1,844,880	1,710,834	-	-	-	-	-
Public works	996,158	879,861	968,094	1,071,418	819,019	-	-	-	-	-
Parks and recreation	499,599	509,510	532,872	938,994	346,490	-	-	-	-	-
Civic auditorium	632,450	554,277	506,451	377,877	329,252	-	-	-	-	-
Community development	2,240,235	200,407	169,014	145,892	146,956	-	-	-	-	-
Interest on long-term debt	81,822	32,422	55,084	49,387	61,304	-	-	-	-	-
Sewer	1,043,927	1,063,244	1,026,630	1,006,304	935,352	-	-	-	-	-
Water	630,347	617,593	590,288	589,486	540,488	-	-	-	-	-
	\$ 10,168,919	\$ 7,719,244	\$ 7,843,805	\$ 7,587,349	\$ 6,626,867	\$ -	\$ -	\$ -	\$ -	\$ -

(1) The City implemented GASB Statement No. 34 as of and for the fiscal year ended June 30, 2001. Accordingly, data prior to fiscal 2000-01 is not available.

Table 2

CITY OF TECUMSEH, MICHIGAN
General Governmental Revenue by Source (1) - Unaudited
Last Ten Fiscal Years Ended June 30

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Taxes and special assessments	\$ 3,780,738	\$ 3,730,787	\$ 3,615,385	\$ 3,390,541	\$ 3,108,053	\$ 2,957,394	\$ 2,871,520	\$ 2,623,615	\$ 2,454,235	\$ 2,261,409
Licenses and permits	213,289	194,289	171,027	207,669	208,801	144,150	147,679	124,765	137,542	92,727
Intergovernmental	1,496,708	1,543,543	1,527,797	1,842,030	1,615,889	1,468,659	1,478,894	1,385,112	1,259,358	1,320,477
Charges for services	509,798	510,974	463,016	562,692	372,842	267,764	238,295	219,209	202,309	200,674
Fines and forfeitures	36,584	40,445	36,482	33,357	36,837	38,981	32,791	30,277	32,191	28,050
Investment earnings	77,953	76,644	37,694	364,988	607,935	162,193	145,405	138,537	111,840	97,378
Contributions and other revenue	118,679	681,979	179,302	594,781	197,796	168,611	201,377	104,391	107,779	107,829
	<u>\$ 6,233,749</u>	<u>\$ 6,778,661</u>	<u>\$ 6,030,703</u>	<u>\$ 6,996,058</u>	<u>\$ 6,148,153</u>	<u>\$ 5,207,752</u>	<u>\$ 5,115,961</u>	<u>\$ 4,625,906</u>	<u>\$ 4,305,254</u>	<u>\$ 4,108,544</u>

General Governmental Expenditures by Function (1) - Unaudited
Last Ten Fiscal Years Ended June 30

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
General government	\$ 1,841,889	\$ 1,848,328	\$ 1,952,095	\$ 1,892,067	\$ 1,728,345	\$ 1,918,618	\$ 1,717,127	\$ 1,512,182	\$ 1,503,290	\$ 1,296,805
Public safety	1,940,903	1,871,376	2,217,056	1,991,089	1,664,314	1,549,888	1,529,975	1,379,051	1,335,326	1,284,911
Public works	941,134	1,057,214	1,512,683	1,319,727	1,151,117	1,085,173	1,138,863	831,727	928,331	806,348
Parks and recreation	502,449	542,412	498,390	895,397	481,635	416,066	408,578	431,561	317,881	430,613
Civic auditorium (2)	580,206	570,952	481,801	409,440	282,478	-	-	-	-	-
Community development	2,349,616	170,177	168,393	152,964	144,582	128,966	115,951	97,834	91,261	15,333
Debt service	247,037	396,637	414,140	332,710	319,888	311,960	282,435	263,029	176,360	162,760
	<u>\$ 8,403,234</u>	<u>\$ 6,457,096</u>	<u>\$ 7,244,558</u>	<u>\$ 6,993,394</u>	<u>\$ 5,772,359</u>	<u>\$ 5,410,671</u>	<u>\$ 5,192,929</u>	<u>\$ 4,515,384</u>	<u>\$ 4,352,449</u>	<u>\$ 3,996,770</u>

(1) Includes general, special revenue and debt service funds through June 30, 2000; includes all governmental funds thereafter.

(2) Beginning with the fiscal year ended June 30, 2001, the Civic Auditorium Fund was reclassified from an enterprise fund to special revenue fund.

Table 3

CITY OF TECUMSEH, MICHIGAN
Property Taxes Levied and Collected - Unaudited
Last Ten Fiscal Years

(1) Fiscal Year Ended June 30,	(2) Total Tax Levy	Current Tax Collections	Percent of Current Taxes Collected	(3) Delinquent Tax Collections	Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy
2005	\$ 3,828,177	\$ 3,725,289	97.3%	\$ 94,875	\$ 3,820,164	99.8%
2004	3,830,362	3,733,713	97.5%	85,249	3,818,962	99.7%
2003	3,676,747	3,579,371	97.4%	81,419	3,660,790	99.6%
2002	3,400,837	3,242,042	95.3%	75,641	3,317,683	97.6%
2001	3,163,481	3,070,613	97.1%	75,506	3,146,119	99.5%
2000	3,016,442	2,944,504	97.6%	69,585	3,014,089	99.9%
1999	2,877,550	2,780,701	96.6%	95,900	2,876,601	100.0%
1998	2,707,798	2,625,782	97.0%	80,964	2,706,746	100.0%
1997	2,440,396	2,366,291	97.0%	71,168	2,437,459	99.9%
1996	2,307,979	2,223,820	96.4%	80,475	2,304,295	99.8%

(1) Property taxes are levied July 1 of the current fiscal year based on taxable property values as of the preceding December 31. Unpaid property taxes become delinquent as of September 1 of the current fiscal year. The City's delinquent real property taxes are purchased by the Lenawee County Delinquent Tax Revolving Fund. Uncollected personal property taxes must be collected by the City Treasurer.

(2) Includes Industrial Facility Tax.

(3) Includes settlement from Lenawee County Delinquent Tax Revolving for purchase of delinquent real property taxes.

Table 4

CITY OF TECUMSEH, MICHIGAN
Assessed and Estimated Actual Value of Property - Unaudited
Last Ten Fiscal Years

As of December 31,	Real Property (2)		Personal Property (2)		Total		Ratio of Assessed to Estimated Actual Value
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
2003	\$ 228,885,681	\$ 457,771,362	\$ 21,771,900	\$ 43,543,800	\$ 250,657,581	\$ 501,315,162	50.00%
2002	217,733,543	435,467,086	20,636,448	41,272,896	238,369,991	476,739,982	50.00%
2001	216,363,000	434,479,001	22,217,200	44,434,400	238,580,200	478,913,401	49.82%
2000	198,169,700	396,494,927	19,977,800	39,955,600	218,147,500	436,450,527	49.98%
1999	185,332,200	370,664,400	21,275,900	42,551,800	206,608,100	413,216,200	50.00%
1998	173,403,063	346,806,126	34,652,920	69,305,840	208,055,983	416,111,966	50.00%
1997	162,938,094	325,876,188	39,362,945	78,725,890	202,301,039	404,602,078	50.00%
1996	161,653,400	323,306,800	42,300,600	84,601,200	203,954,000	407,908,000	50.00%
1995	150,971,800	301,943,600	42,879,703	85,759,406	193,851,503	387,703,006	50.00%
1994	132,607,530	265,215,060	40,830,100	81,660,200	173,437,630	346,875,260	50.00%

(1) Property taxes are levied July 1 of the succeeding fiscal year based on assessed values (taxable values beginning in 1994) as of December 31.

(2) Includes properties subject to Industrial Facility Tax exemptions.

Table 5

CITY OF TECUMSEH, MICHIGAN
Property Tax Rates (1) - Unaudited
Direct and Overlapping Governments
Last Ten Fiscal Years

Fiscal Year Ended June 30,	City	Tecumseh Public Schools	State Education Tax	Lenawee		Tecumseh District Library	Totals	
				Intermediate School District	County		Homestead	Non- Homestead
2005	14.8450	25.1567	6.0000	7.4102	5.7145	1.1472	42.3169	60.2736
2004	15.5300	23.2906	6.0000	7.4867	5.7730	1.1500	43.1397	59.2303
2003	15.5600	23.2907	6.0000	7.5465	5.8191	-	42.1256	58.2163
2002	15.5600	25.0290	6.0000	7.6449	5.6165	-	42.0214	59.8504
2001	15.5600	23.3290	6.0000	7.7073	5.6420	-	40.4093	58.2383
2000	15.5600	23.3290	6.0000	6.6073	5.6555	-	39.3228	57.1518
1999	15.5600	19.1000	6.0000	6.6849	5.6178	-	34.9627	52.9627
1998	15.6500	19.1000	6.0000	6.6949	5.7385	-	35.1834	53.1834
1997	14.9500	19.1000	6.0000	6.6949	5.7361	-	34.4810	52.4810
1996	14.9500	19.1650	6.0000	6.6949	5.4203	-	34.2302	52.2302

(1) Per \$1,000 of equalized value.

(2) Passage of Proposal A in 1994 reduced operating millage for Tecumseh Public Schools to 18 mills for non-homestead properties and exempted homestead properties. Both homestead and non-homestead properties are subject to the State Education Tax of 6 mills as well as any debt service levy. For 2003 the State Education Tax was reduced to 5 mills for one year only due to a statewide summer tax collection.

SOURCES: Annual Apportionment Report of Lenawee County

Table 6

CITY OF TECUMSEH, MICHIGAN
Revenue Bond Coverage - Unaudited
Water Fund
Last Ten Fiscal Years

Fiscal Year Ended June 30,	(1) Gross Revenue	(2) Operating Expenses	Net Revenue Available for Debt Service	Total Debt Service Requirement	Coverage
2005	\$ 644,930	\$ 540,390	\$ 104,540	\$ 62,360	1.68
2004	587,524	539,095	48,429	64,535	0.75
2003	621,406	518,899	102,507	61,853	1.66
2002	630,080	524,184	105,896	63,990	1.65
2001	636,214	469,035	167,179	61,115	2.74
2000	650,330	430,745	219,585	58,433	3.76
1999	636,421	456,408	180,013	59,835	3.01
1998	633,748	441,075	192,673	56,373	3.42
1997	596,394	414,301	182,093	58,310	3.12
1996	555,868	353,877	201,991	59,447	3.40

(1) Includes investment income.

(2) Excludes depreciation expense.

Table 7

CITY OF TECUMSEH, MICHIGAN
Ratio of Net General Bonded Debt to Assessed Value
and Net Bonded Debt Per Capita - Unaudited
Last Ten Fiscal Years

Fiscal Year Ended June 30,	(1) Population	(2) Taxable Value	(3) Gross Bonded Debt	(4) Less Debt Service Fund Amounts	(5) Less Self- Supporting Portions	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2005	8,574	\$ 250,657,581	\$ 755,000	\$ 124,453	\$ -	\$ 630,547	0.25%	\$ 74
2004	8,574	238,369,991	415,000	61,460	-	353,540	0.15%	41
2003	8,574	238,580,200	720,000	72,279	-	647,721	0.27%	76
2002	8,574	218,147,500	1,020,000	77,039	-	942,961	0.43%	110
2001	8,574	206,608,100	1,300,000	88,354	-	1,211,646	0.59%	141
2000	8,350	208,055,983	1,555,000	86,829	-	1,468,171	0.71%	176
1999	8,350	202,301,039	1,790,000	82,359	-	1,707,641	0.84%	205
1998	8,032	203,954,000	1,985,000	46,058	-	1,938,942	0.95%	241
1997	7,942	193,851,503	2,140,000	5,963	-	2,134,037	1.10%	269
1996	7,942	173,437,630	1,290,000	5,175	-	1,284,825	0.74%	162

(1) From Table 11.

(2) From Table 4.

(3) Amounts do not include revenue bonds or discretely presented component units.

(4) Represents amounts available for repayment of general obligation bonds.

(5) Represents amounts, if any, that are being repaid from Enterprise funds.

Table 8

CITY OF TECUMSEH, MICHIGAN
Computation of Legal Debt Margin - Unaudited

Taxable Value (1)		<u>\$ 250,657,581</u>
Legal debt limit (10% of Taxable Value) (2)		\$ 25,065,758
Debt applicable to limitation:		
Gross bonded debt of City (3)	\$ 2,415,000	
Less: Revenue bonds	(180,000)	
Amounts available for repayment of general obligation bonds	<u>(124,453)</u>	
		<u>2,110,547</u>
LEGAL DEBT MARGIN		<u>\$ 22,955,211</u>

(1) Includes properties subject to Industrial Facility Tax exemptions.

(2) Article VII, Paragraph II of the Constitution of the State of Michigan of 1963, as amended.

(3) Includes discretely presented component units.

Table 9

CITY OF TECUMSEH, MICHIGAN
Computation of Direct and Overlapping Bonded Debt - Unaudited

	(1) Net Debt Outstanding	Percentage Applicable to City of Tecumseh	Amount Applicable to City of Tecumseh
Direct:			
City issued bonded debt (2)	\$ 2,235,000	100.00%	<u>\$ 2,235,000</u>
Overlapping:			
Lenawee County	9,320,000	9.40%	876,080
Tecumseh Public Schools	55,195,390	48.53%	<u>26,786,323</u>
			<u>27,662,403</u>
 TOTAL			 <u><u>\$ 29,897,403</u></u>

(1) Excludes self-supporting debt.

(2) Includes discretely presented component unit.

SOURCE: 2004 Lenawee County Apportionment Report and L-4029.

Table 10

CITY OF TECUMSEH, MICHIGAN
Ratio of Annual Debt Service Expenditures
for General Bonded Debt to Total
General Governmental Expenditures - Unaudited
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Annual Debt Service	Total General Governmental Expenditures (1)	Ratio
2005	\$ 247,037	\$ 8,403,234	2.9%
2004	396,637	6,457,096	6.1%
2003	414,140	7,244,558	5.7%
2002	332,710	6,993,394	4.8%
2001	319,888	5,772,359	5.5%
2000	311,960	5,410,671	5.8%
1999	282,435	5,192,929	5.4%
1998	263,029	4,515,384	5.8%
1997	176,360	4,352,449	4.1%
1996	162,760	3,996,770	4.1%

(1) Includes general, special revenue and debt service funds through 6/30/00;
all governmental funds thereafter.

Table 11

CITY OF TECUMSEH, MICHIGAN
Demographic Statistics - Unaudited

<u>Year</u>	<u>Population</u>	<u>School Enrollment</u>	<u>Unemployment Rate</u>
2004	8,574 (4)	3,430	6.5%
2003	8,574 (4)	3,460	6.6%
2002	8,574 (4)	3,413	5.9%
2001	8,574 (4)	3,312	5.3%
2000	8,574 (4)	3,250	3.3%
1999	8,350 (1)	3,258	3.2%
1998	8,350 (3)	3,218	2.9%
1997	8,032 (2)	3,180	3.5%
1996	7,942 (1)	3,170	4.1%
1995	7,942 (1)	3,109	4.8%

<u>Year</u>	<u>Population</u>	<u>Median Age</u>
2000	8,574	36.3
1990	7,462	33.6
1980	7,320	30.0
1970	7,120	27.4
1960	7,045	-
1950	4,020	-

(1) Estimate not yet prepared; amount from prior year used.

(2) Estimate as of July 1996

(3) Estimate as of 1998 per Census Bureau

(4) Per 2000 Census

SOURCES:

Population - Michigan Information Center, Department of Management and Budget

School Enrollment - Tecumseh Public Schools

Unemployment Rate - Michigan Department of Career Development

Table 12

CITY OF TECUMSEH, MICHIGAN
Property Value, Construction and Bank Deposits (1) - Unaudited
Last Ten Fiscal Years

Year	Commercial Construction		Residential Construction	
	Number of Units	Value	Number of Units	Value
2004	3	\$ 4,000,000	57	\$ 5,200,000
2003	3	500,000	51	5,500,000
2002	4	1,800,000	63	8,657,000
2001	4	2,200,000	58	8,126,000
2000	2	1,200,000	45	6,228,400
1999	4	1,400,000	61	7,607,300
1998	2	650,000	90	10,981,500
1997	6	2,405,000	74	10,617,088
1996	7	1,171,000	60	6,659,500
1995	4	1,252,400	39	5,006,200

Equalized Property Values						
As of December 31,		Commercial	Industrial	Residential	Development	Personal
2003	(2) \$	35,482,011	\$ 18,180,268	\$ 174,582,660	\$ 640,742	\$ 21,771,900
2002	(2)	33,641,693	18,334,920	165,357,826	628,938	21,277,548
2001	(2)	31,983,557	18,365,216	156,595,602	336,101	23,412,231
2000	(2)	30,146,094	8,713,750	145,411,892	485,318	22,213,103
1999	(2)	28,127,817	7,464,029	134,755,859	521,134	19,972,513
1998	(2)	26,983,968	7,175,086	124,406,644	656,865	21,274,220
1997	(2)	25,986,526	7,048,101	115,508,935	479,632	18,595,345
1996	(2)	23,233,864	5,928,208	95,797,042	415,070	18,142,006
1995	(2)	22,414,631	19,519,957	90,355,887	317,055	40,830,100
1994	(2)	21,272,100	18,901,300	87,136,150	307,000	36,538,600

(1) Complete and/or reliable construction and bank deposit data not currently available.

(2) Based on "taxable value."

Table 13

CITY OF TECUMSEH, MICHIGAN
Principal Taxpayers - Unaudited

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Taxable Valuation (1)</u>	<u>Percentage of Total Taxable Valuation</u>
Lenawee Stamping Corporation	Manufacturing	\$ 21,177,239	8.88%
Tecumseh Products Company	Manufacturing	11,678,482	4.89%
Consumers Power Company	Public Utility	3,583,359	1.50%
D.J. Martin	Retail / Sales	2,431,329	1.02%
Tecumseh Place Apartments	Housing	2,329,307	0.98%
Tecumseh Plaza	Retail	2,280,000	0.96%
United Bank and Trust	Banking	2,085,229	0.87%
Ervin Industries	Manufacturing	1,642,534	0.69%
Tecumseh Corrugated Box	Manufacturing	1,234,975	0.52%
Glycon, Inc.	Manufacturing	1,014,963	0.43%
		<u>\$ 49,457,417</u>	<u>20.73%</u>

(1) Includes ad valorem and Industrials Facilities Tax property (at full value).

SOURCE: Assessor and Treasurer, City of Tecumseh

Table 14

CITY OF TECUMSEH, MICHIGAN
Miscellaneous Statistics - Unaudited

Date of Incorporation	1954
Form of Government	Council/Manager
Number of employees (excluding police and fire):	
Full-time	38
Part-time	12
Seasonal	164
Area in square miles	5.372
Election data (November 2004 general election)	
Number of registered voters	6,112
Number of ballots cast	4,699
Percentage of participating voters	76.9%
City of Tecumseh facilities and services:	
Miles of streets:	
Major streets	16.57
Local streets	28.00
Number of street lights:	
Mercury vapor	468
High pressure sodium	76
Culture and recreation:	
Community centers	1
Parks (including undeveloped land and green space)	17
Park acreage (City-owned)	355
Park acreage (School-owned)	91
Swimming pools (School-owned)	1
Outdoor swimming area	1
Tennis courts	5
Playgrounds (City-owned)	6
Playgrounds (School-owned)	5
In-line skating rink	1
Bike/Skate parks	1
Gazebo	1
Fire Protection:	
Number of stations	1
Number of fire personnel and officers:	
Full-time	4
Paid on-call	21
Number of calls answered	598
Number of inspections conducted	15

(continued)

Table 14
(concluded)

Police Protection:

Number of stations	1
Number of police personnel and officers:	
Full-time officers	15
Full-time dispatcher	2
Part-time dispatchers	3
Part-time Animal Control	1
Number of patrol units	6
Number of law violations:	
Physical arrests	222
Traffic violations	944
Parking violations	23
Uniform Crime Reporting (Part I and II)	416

Wastewater System:

Miles of sanitary sewers	53.3
Miles of storm sewers	20
Number of treatment plants	1
Daily average treatment (in gallons)	887,964
Maximum daily capacity of treatment plant (in gallons)	1,610,000

Water System:

Miles of water mains	56
Number of service connections:	
Combined water and sewer	3,702
Water only	41
Sewer only	19
Number of fire hydrants	431
Daily average consumption (in gallons)	1,118,272
Maximum daily capacity of water plant (in gallons)	5,000,000
Storage tanks (500,000 gallon capacity)	1

Facilities and services not included in the primary government:

Cable Television System:

Miles of service	57.5
Number of satellite receiving stations	-

Education:

Number of elementary schools	4
Number of elementary school instructors	68
Number of secondary schools	2
Number of secondary school instructors	95
Number of counselors	5
Number of administration	16

Facilities and services not included in reporting entity:

Hospitals:

Number of hospitals	1
Number of patient beds	94

Table 15

CITY OF TECUMSEH, MICHIGAN
Salaries and Surety Bonds of Principal Officials - Unaudited

Name and Title of Official		Annual Salary	Amount of Surety Bond
Manager	Kevin M. Welch	\$86,403	\$25,000
Assessor	Amanda Lacelle	48,006	25,000
Cemetery Superintendent	Dan Righter	46,987	25,000
Clerk	Laura Caterina	53,539	25,000
Civic Auditorium Executive Director	Robert Steele	58,386	25,000
Development Services Director	Bradley Raymond	60,216	25,000
Public Works Director	Steven Johnston	67,434	25,000
Emergency Services Chief	Joseph C. Tuckey	54,704	25,000
Parks & Recreation Director	Pat Paul Sorise	61,298	25,000
Police Chief	Macklin Haun	69,118	25,000
Public Utilities Interim Director	Michael Bearinger	55,245	25,000
Treasurer	Dianne M. Sackett	54,704	25,000
Economic Development Director	Paula Holtz	61,298	25,000

SOURCE: City of Tecumseh



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



August 12, 2005

To the City Council
City of Tecumseh, Michigan

We have audited the financial statements of the *City of Tecumseh, Michigan* for the year ended June 30, 2005, and have issued our report thereon dated August 12, 2005. Professional standards require that we provide you with the following information related to your audit.

Our Responsibility Under Generally Accepted Auditing Standards

As stated in our engagement letter dated June 1, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements.

As reflected in Note III.A. to the basic financial statements, the City adopted the provisions of Government Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year fiscal year ended June 30, 2005. The adoption of this new standard had no effect on the financial statements.

We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the City that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed several audit adjustments that, in our judgment, both individually and in the aggregate, had a significant effect on the City, all of which were recorded by the City, and are reflected in the financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This information and the attached memorandum are intended for the use of the City Council and management of the City of Tecumseh and the State of Michigan. However, this report is a matter of public record, and its distribution is not limited.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is positioned below the typed name.

CITY OF TECUMSEH, MICHIGAN

COMMENTS AND RECOMMENDATIONS For the Year Ended June 30, 2005

During our audit we became aware of certain matters that are opportunities for strengthening internal control and operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters, and does not affect our report dated August 12, 2005, on the financial statements of the City of Tecumseh, Michigan.

We will review the status of these comments during our next audit engagement. We have already discussed these matters with City management and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the City in implementing the recommendations.

Internal Controls – Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the City's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

As is the case with many organizations of similar size, the City lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to initiate a transaction, record the transaction in the accounting records, maintain custody of the assets resulting from the transaction, and have continued access to the accounting records. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

Often, it is perceived by individuals, both inside and outside of an entity, that an audit of the financial statements performed in accordance with applicable professional standards is tantamount to an audit of that entity's internal control, that such a financial statement audit is itself an internal control, and that the auditor is responsible for detecting all fraud and abuse. This is not true, and both management and the governing body need to understand this in considering its internal control policies and procedures.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

* * * * *